

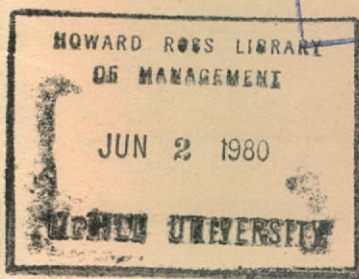
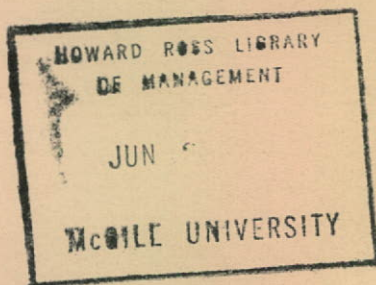
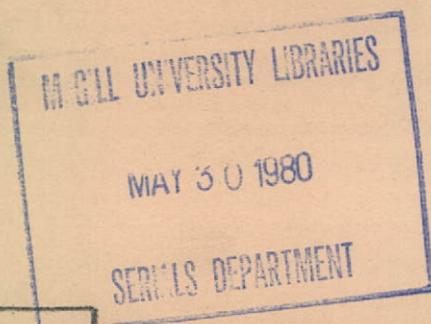
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Canadian Tax Foundation

L'Association Canadienne d'Etudes Fiscales

Thirty-Fourth Annual Report

For the year ending December 31, 1979



100 UNIVERSITY AVENUE
TORONTO, CANADA

Thirty-Fourth Annual Report

For the year ending

December 31, 1979

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 15, 1980

H. J. Bolton, C.A.	Edmonton
J. R. Brown, C.A.	Montreal
F. W. Chenhall, C.A.	Halifax
P. J. Cloutier, C.A.	Sherbrooke
G. B. Cooper, Q.C.	Moncton
* J. C. Couture, Q.C.	Montreal
J. M. Coyne, Q.C.	Ottawa
G. E. Cronkwright, F.C.A.	Toronto
R. J. Dart, F.C.A.	Toronto
F. W. Davis, C.A.	Moncton
J. J. A. Dierker	Saskatoon
Gaëtan Drolet	Quebec
* S. E. Edwards, Q.C.	Toronto
B. A. Felesky	Calgary
Gilles Gagné, C.A.	Montreal
* P. N. Geer, C.A.	Vancouver
* W. E. Goodlet, F.C.A.	Toronto
* R. B. Goodwin	Winnipeg
* L. J. Hayes, Q.C.	Halifax
R. F. Lindsay	Toronto
L. M. Little	Vancouver
Jean Monet, Q.C.	Montreal
G. E. Noren, C.A.	Moose Jaw
* Charles Pelletier, C.A.	Quebec
H. O. Pintea, C.A.	Winnipeg
Jean Potvin	Montreal
Sheldon Silver, Q.C.	Toronto
J. G. Smith	Vancouver
D. Y. Timbrell, F.C.A.	Toronto
Peter Walton, C.A.	Vancouver
D. J. Warr, C.A.	St. John's
C. W. White	St. John's

* Executive Committee of the Board of Governors

OFFICERS

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Charles Pelletier, C.A. Vice-Chairman
and Chairman of the Executive Committee

J. C. Couture, Q.C. Vice-Chairman

William E. Goodlet, F.C.A. Past Chairman

Douglas J. Sherbaniuk, Director

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

Patricia A. Hillmer, Secretary

PAST CHAIRMEN

Molyneux 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. Pattilo, Q.C. (deceased)

* 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

* Jacques Raymond, C.A., Montreal

* George T. Tamaki, Q.C., Toronto

* Advisory Committee of Past Chairmen

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 1979

(With comparative figures for 1978)

ASSETS

CURRENT ASSETS	1979	1978
Cash	\$ 122,254	\$ 152,687
Investments, at cost (note 2)	1,839,500	1,100,000
Accounts receivable and deposit	40,479	15,866
	<u>2,002,233</u>	<u>1,268,553</u>
 FIXED ASSETS		
Furniture and office equipment	54,414	48,246
Leasehold improvements	14,835	14,835
	<u>69,249</u>	<u>63,081</u>
 Accumulated depreciation and amortization	43,919	38,966
	<u>25,330</u>	<u>24,115</u>
	<u>2,027,563</u>	<u>1,292,668</u>
 TRUST FUND		
Cash	5,979	10,035
	<u>\$2,033,542</u>	<u>\$1,302,703</u>

LIABILITIES AND RESERVE

CURRENT LIABILITIES		
Accounts payable	\$ 207,100	\$ 78,820
Deferred revenue	234,212	218,471
Contributions for publication series, Financing Canadian Federation	32,099	
	<u>473,411</u>	<u>297,291</u>
 RESERVE		
Retained for continuation of the Foundation's activities		
Balance, beginning of year	995,377	636,885
Excess of revenue over expense	558,775	358,492
	<u>1,554,152</u>	<u>995,377</u>
Balance, end of year	<u>2,027,563</u>	<u>1,292,668</u>
 TRUST FUND LIABILITY		
Taxation and economic growth study fund, joint project with Queen's University	5,979	10,035
	<u>\$2,033,542</u>	<u>\$1,302,703</u>

APPROVED ON BEHALF OF THE BOARD OF GOVERNORS

W. E. Goodlet
ChairmanStanley E. Edwards
Vice-Chairman

STATEMENT OF REVENUE AND EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 1979

(With comparative figures for 1978)

	<u>1979</u>	<u>1978</u>
REVENUE		
Subscriptions		
Corporate	\$ 178,950	\$ 178,574
Individual	349,053	311,051
	<hr/> 528,003	<hr/> 489,625
Investment Income	153,817	84,896
Conferences	783,907	548,562
	<hr/> 1,465,727	<hr/> 1,123,083
EXPENSE		
Research salaries	203,259	178,861
Research consulting	14,231	16,532
Publications	95,788	76,820
Special studies	16,850	15,931
Books and periodicals, library	17,869	11,686
Conferences - direct expense	321,366	227,575
Salaries - administration	105,575	112,591
Pension and insurance plans	34,144	34,178
Rent	39,442	38,215
Travelling	13,806	7,707
Telephone and telegraph	6,452	5,367
Postage	18,534	19,108
Office printing, stationery and supplies	5,835	6,171
General office expense	8,848	9,338
Depreciation and amortization expense	4,953	4,511
	<hr/> 906,952	<hr/> 764,591
Excess of Revenue over Expense	<hr/> \$ 558,775	<hr/> \$ 358,492

STATEMENT OF TRUST FUND LIABILITY
FOR THE YEAR ENDED DECEMBER 31, 1979

	<u>1979</u>	<u>1978</u>
Balance, beginning of year	\$ 10,035	\$ 9,105
Interest income	944	930
	<hr/> 10,979	<hr/> 10,035
Expense of special study	5,000	
	<hr/> 5,979	
Balance, end of year	<hr/> \$ 5,979	<hr/> \$ 10,035

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1979

(With comparative figures for 1978)

SOURCE OF WORKING CAPITAL	<u>1979</u>	<u>1978</u>
From operations		
Excess of revenue over expense	\$ 558,775	\$ 358,492
Depreciation and amortization not requiring a current outlay of working capital	<u>4,953</u>	<u>4,511</u>
	563,728	363,003
APPLICATION OF WORKING CAPITAL		
Additions to fixed assets	<u>6,168</u>	<u>908</u>
INCREASE IN WORKING CAPITAL	557,560	362,095
WORKING CAPITAL, BEGINNING OF YEAR	<u>971,262</u>	<u>609,167</u>
WORKING CAPITAL, END OF YEAR	<u><u>\$1,528,822</u></u>	<u><u>\$ 971,262</u></u>
COMPONENTS OF WORKING CAPITAL		
Current assets	\$2,002,233	\$1,268,553
Current liabilities	<u>473,411</u>	<u>297,291</u>
	<u><u>\$1,528,822</u></u>	<u><u>\$ 971,262</u></u>

NOTES TO FINANCIAL STATEMENTS

December 31, 1979

(With comparative figures for 1978)

1. Summary of accounting policies

(a) Fixed assets

Fixed assets are stated at cost. Depreciation and amortization are provided over the estimated useful lives of the assets on a straight-line basis at 10% per annum.

(b) Deferred revenue

Subscription revenue applicable to future period is deferred.

2. Investments	<u>1979</u>	<u>1978</u>
Guaranteed investment certificates		
8¼% to 9½% due 1980 to 1982	\$ 190,000	\$ 325,000
Kinross Mortgage Corporation		
Debenture 10% due 1980	100,000	100,000
Royal Trust Company, M Fund		
10,115.348 units	100,000	100,000
Term deposits		
Canadian Imperial Bank of Commerce		
12.05% to 14.4% due January to May 1980	700,000	425,000
Bank of Montreal		
11.9% to 14.35% due January to March 1980	600,000	150,000
Government of Canada		
\$100,000 10% due June 1, 1984	99,750	
50,000 10¼% due Feb. 1, 2004	49,750	
	<u>\$1,839,500</u>	<u>\$1,100,000</u>
Market value	<u>\$1,823,416</u>	<u>\$1,098,761</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.

AUDITORS' 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, 1979 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, 1979 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
January 14, 1980

Jarrett, Gould & Elliott
Chartered Accountants

REPORT OF THE CHAIRMAN
TO THE THIRTY-FOURTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION

APRIL 15, 1980

Each year, one of the final duties of the Chairman, before turning the gavel over to his successor and joining the Advisory Committee of Past Chairman, is to review the affairs of the Foundation during his tenure in office. In this thirty-fourth annual review, I am pleased to report another year of significant achievement in the life of the Foundation. The research and publications program will be dealt with in detail by the Director in his report, so I need only mention here that the number of projects completed or underway in 1979 was by far the largest ever. Our conference and seminar program was well received by members from coast to coast and it made a significant contribution to the Foundation's financial status. Both individual and corporate memberships increased, although not at as rapid a rate as we might have wished. Financially, the year ended with a substantial balance on the credit side of the books.

Let me elaborate on certain of these matters.

Membership and Finance

As you know, there are two classes of membership in the Foundation: individual and corporate. The former are numerically the greater body, but each contributes to our financial strength. Needless to say, increases in both categories are most welcome.

During 1979, individual memberships increased, although at a much slower rate than in the preceding two years when we experienced a surge in new memberships as a result of letters sent by the presidents of the two sponsoring associations to their members encouraging support of the Foundation. At December 31, 1979 our rolls showed a net increase of 31. There was also a net addition to the rolls of 5 new corporate subscribers. Total membership at December 1979 was made up of 7,255 individual members and 403 corporate members. An additional large group of Canadian companies -- some 200 in all -- are represented in our membership through association subscriptions made in lieu of contributions by individual companies.

To the end of February 1980, we have made a net addition to the rolls of 26 individual members and 4 corporate subscribers.

The Membership Committee of the Board of Governors is taking steps to increase membership in both categories at home and abroad. With a view to stimulating interest in our affairs on the part of nonresident individuals and corporations, the Foundation has inserted in the current issue of the well-known U.S. periodical Journal of Taxation an advertisement that describes our activities and the advantages of membership. If this effort to reach U.S. tax professionals proves to be successful, it will be repeated in other foreign publications.

Another step designed to focus international attention on the Foundation will be the distribution to selected tax professionals in several foreign countries of a catalogue which describes in detail all Foundation publications in print. The catalogue will also be mailed, of course, to all Foundation members to enable them to fill gaps in their collections of our publications.

Finally, later this year, the Governors will mount a campaign to enrol new corporate subscribers in all parts of Canada. We believe that with proper organization and follow-up there are good prospects for substantial increases in support from the business sector.

The full details of the Foundation's financial position and operations for 1979 are contained in the audited financial statement that accompanied the notice of this meeting. Accordingly, I shall comment only on the main results of the year, which were very satisfactory. The largest source of revenue was membership subscriptions. Corporate contributions were about the same as in 1978, while individual membership yielded \$38,000 more than in the previous year. Revenue from conferences has grown steadily during the past few years and now constitutes the second largest source of income, amounting to \$462,000 during the year under review. The third largest source of revenue is interest earned by the Foundation's investments.

For the first time in many years, the Foundation received contributions from eight corporations that were earmarked for the purpose of helping to defray the costs of preparation and publication of the series of studies on financing Canadian federation. The Department of Finance also contributed toward the cost of production of one of the studies in this series, an analytical history of the tax rental agreements by R.M. Burns, who carried out the project under the aegis of the Department. All contributors understood, of course, the basic ground rule followed by the Foundation in accepting financial support from any source -- namely, that the

Foundation, as an institution, takes no position on policy issues and that in carrying out its research and publications program, it functions as an impartial, independent, nonpartisan organization. I take this opportunity to acknowledge the generosity of The Aluminum Company of Canada Limited, Canadian General Electric Company Limited, DuPont of Canada Limited, Imperial Oil Limited, The Molson Companies Limited, Noranda Mines Limited, Southam Inc., The Steel Company of Canada, Limited, and the Department of Finance.

Expenditures rose by \$142,000. The largest increase was in the cost of conferences, although research salaries and the cost of publications were also higher. The overall net result was a favourable balance of \$558,000 compared with \$358,000 in the previous year.

It is worthy of note that the additional revenues in recent years have enabled the Foundation to expand the research and publications program very substantially so as to make the current year's program the heaviest by far in the Foundation's history. To illustrate, it would have been beyond our resources even five years ago to contemplate undertaking the series of seven studies on Financing Canadian Federation.

It is expected that the accounts for 1980 will show substantially higher expenditures. For one thing, as the Director will elaborate, several studies that have been in preparation for many months will reach fruition this year. The cost of publications may well increase by 100 per cent over last year's costs. For another, the expansion in all phases of our activities in recent years has made the premises occupied by the Foundation since May 1972 quite inadequate. For the past several months a committee of the Board of Governors has been seeking larger accommodation that would be suitable to house the Foundation's operations over the next decade. Although the move will be planned with a careful eye on the budget, on the basis of information gathered to date it is likely to be expensive, both as to capital outlay and increased rent.

Enlarged premises may help us to recruit additional research personnel to bring the staff up to the strength we need and have planned for. The shortage of research personnel, particularly lawyers and accountants with experience in taxation, has handicapped the Foundation and limited its capacity to undertake studies of current issues and to explore emerging problems in public finance. We are making every effort to find and attract people with the necessary qualifications, although we are under no illusions about the difficulty of the task in view of the strong competitive demand for services of the kind we require.

Conferences

Conferences have always played an important part in the Foundation's affairs, constituting as they do a forum for all those interested in taxation to present different viewpoints on all manner of tax issues. Our conference agenda last year involved several meetings in various parts of the country, sponsored either solely by the Foundation or in conjunction with other organizations. The success of the Annual Conference, which was held in Toronto in November, is still fresh in the minds of our members, more than 1,700 of whom were in attendance to hear nearly 60 eminent authorities from government, business, the professions, and the universities examine and evaluate recent developments and current issues in taxation, particularly the major amendments to the Income Tax Act contained in Bill C-37. An innovation at the conference was the Revenue Canada Round Table, at which six senior officials of the Department responded to a series of questions posed by two moderators from the legal and accounting professions. The session was an unqualified success and one that we hope can be repeated from time to time at future conferences.

An element of suspense was added to the proceedings when the Minister of Finance, the Honourable John Crosbie, who was scheduled to be the Banquet Speaker, was obliged by reason of parliamentary duties to remain in Ottawa and agreed to address the gathering through closed circuit television. After a few moments of technical difficulties, the Ottawa connection was established and the audience thoroughly enjoyed the Minister's remarks.

The 1979 Corporate Management Tax Conference, the sixteenth in this series of meetings designed primarily for our corporate members and their advisers, was held in Toronto in June and was devoted to the topical subject of income tax aspects of executive and employee compensation. Because of the enthusiastic response, it was presented again in Edmonton in October. We were pleased to have as participants D.L.H. Davidson, Assistant Deputy Minister of the Legislation Branch, Department of National Revenue, and his colleague, C.W. Mavor, Director-General of the Non Corporate Rulings and Publications Directorate, who discussed the taxation of compensation from a tax administrator's perspective. The report of the proceedings, which was mailed to members recently, constitutes a unique collection of papers on a subject of broad interest to both employers and employees.

As for the regional conference program, the Foundation's first conference in Edmonton — the 1979 Prairie Provinces Tax Conference — attracted an overflow attendance. We regret that we were unable to accommodate all who wished to attend. Two seminars were held in May — the fifteenth Banff Tax Seminar and the British Columbia Tax Seminar. In September, our annual French language conference, Journées d'Etudes Fiscales, attracted the largest attendance ever for a regional conference (nearly 500 persons) to hear the

discussion of a broad range of current issues arising under federal, Quebec, and U.S. tax laws. The Atlantic Provinces Tax Seminar, also held in September, was jointly sponsored by the Foundation and the Faculty of Commerce at Saint Mary's University.

For the current year, our conference and seminar program is shaping up to be a busy one. In January, the Prairie Provinces Tax Conference was held in Winnipeg, for the third time since the conference was initiated in 1976. The British Columbia Tax Conference, traditionally a one-day affair, will be expanded to two days, May 22 - 23, and will be given over to a discussion of "Tax Planning for the Canadian Businessman: Cradle to Grave." The theme of this year's Corporate Management Tax Conference, to be held in Toronto in June and in Calgary in October, will be Income Tax Aspects of Corporate Financing. This fall, the Journées d'Etudes Fiscales has been scheduled for September 22 - 23 in Montreal. The Atlantic Provinces Tax Seminar will be co-sponsored by Dalhousie University; details of date and place will be announced in due course.

Finally, let me remind you that the 1980 Annual Conference will be held in Montreal on November 24-25-26. Suggestions of subjects for possible inclusion in the program will be welcomed by the Director.

Other Events

While most Foundation members know us best through our publications and conferences, some make more direct use of our facilities, particularly the library. Our collection of tax and public finance material is one of the most extensive in the country and is being used with increasing frequency by tax practitioners, university students, and scholars from other institutions. The facilities were taxed to capacity during February and March with the influx of over 200 students who were taking a public finance course at the University of Toronto and wished to make use of the library for research on their essays. Several post-graduate students from various universities have also availed themselves of the library collection.

Visitors last year included Kevin Munroe, Research Officer of the newly formed Australian Taxation Institute Research and Education Trust, who spent a week at the Foundation to familiarize himself with our activities and methods of operation. Last spring, students enrolled in the International Tax Program of Harvard University spent a day with the staff.

Board of Governors

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

J. M. Belanger, C.A. - St. John's
C. R. Colwell, C.A. - Saint John
R. A. Haines, C.A. - Winnipeg
K. A. Mader, F.C.A. - Halifax
A. J. Stone, Q.C. - Toronto
G. T. Tamaki, Q.C. - Toronto
B. Verchere - Montreal

It is my particular pleasure to thank all of these men for their considerable efforts on behalf of the Foundation during their terms of office. As you know, our Governors serve without remuneration, often at considerable sacrifice to themselves and their professional duties. The retiring Governors have generously contributed their time and talents to the business of the Foundation and the formulation of Foundation policies. It is our hope that none will regard their affiliation with the Foundation as ended simply because of their retirement from the Board.

I know that you would like me to express a special word of appreciation for the invaluable services of George Tamaki, Q.C., who retires as Past Chairman. He was first elected to the Board in 1971 and served to 1973. He was re-elected in 1976 and has since successively held the offices of Vice Chairman, Chairman, and Past Chairman. During his terms of office, he has served the Foundation with distinction. As a member of the Advisory Committee of Past Chairmen, we look forward to having his deft counsel in helping to shape the work of the Foundation in the years ahead.

The new governors to be elected for the coming year, as nominated by the President of the Canadian Bar Association and the President of the Canadian Institute of Chartered Accountants under the provisions of the by-laws, are as follows:

F. W. Chenhall, C.A. - Halifax
J. C. Couture, Q.C. - Montreal
F. W. Davis, C.A. - Moncton
R. F. Lindsay - Toronto
Jean Monet, Q.C. - Montreal
H. O. Pinteau, C.A. - Winnipeg
D. J. Warr, C.A. - St. John's

Conclusion

Since its establishment 35 years ago, the Foundation has defined its mission clearly -- to contribute, through its research, publications and conferences to the improvement of the tax laws and the process of citizen education in the fields of taxation and public expenditures. This is the Foundation's *raison d'être*, the test it must pass if it is to justify the labours of its staff and the substantial sums of money it spends. Over a span of three and one-half decades, this central

concern has lost none of its timeliness. New and pressing problems have arisen from major changes in the tax laws of the federal and provincial governments, and the rapid growth of the public sector has made apparent the need for intensive study of our expenditure system. With its close ties to the professions, the world of affairs, and the academic community, the Foundation has the capacity to play an important role in the increased research that taxation and expenditure problems require. The activities during the year under review, as outlined in this report and that of the Director, are abundant evidence that it is pursuing its objectives with zeal and dedication.

As retiring Chairman, I should like to express my thanks to my fellow Governors for their generous support and co-operation and to many other friends of the Foundation who participated in conferences, served on committees, and helped in so many ways throughout the tenure of my office. I would also like to express a special word of appreciation to the officers and staff of the Foundation without whose assistance my task would have been very much more difficult.

I now move, seconded by Stanley E. Edwards, Q.C., the following resolution -- namely, that this report of the Foundation for the fiscal year ending December 31, 1979 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.

W. E. Goodlet, F.C.A.
Chairman
April 15, 1980

REPORT OF THE DIRECTOR
TO THE THIRTY-FOURTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION

APRIL 15, 1980

Remarks on the
Shrinking World of the Tax Avoider and Evader

The problems of tax avoidance and tax evasion are difficult enough to cope with in a strictly domestic setting but are significantly compounded in an international context. The effectiveness of the Canadian tax laws, as is the case with other nations, stops at the border, with the result that information on the activities of Canadian taxpayers abroad is not readily available and enforcement of tax claims in foreign countries is virtually impossible under well-recognized rules of international law. In a world where so much economic activity is international in character, the most appropriate course of action to resolve or attenuate problems of tax evasion and avoidance is increased co-operation among nations.

I propose today to discuss briefly certain co-operative measures that have been taken by Canada, or are in prospect, to deal with two well-defined problems of tax avoidance and evasion:

- (1) tax minimization by multinational corporations through the use of tax havens, and
- (2) tax evasion by taxpayers who flee the country, taking their assets with them.

The first is one of the major current issues in international taxation. As for the second, there are scanty data as to the revenue loss attributable to evasion by taxpayers fleeing abroad. According to the Auditor General, in 1973, a total of 161 taxpayers owed \$850,000 that was uncollectable because they had moved out of the country. He felt that publicly naming them and the amounts they owe could act as a deterrent.

Transfer Pricing and the Simultaneous Audit Program

Among the most vexing questions in the international field for tax administrators is the policing of transfer pricing between Canadian and foreign units of multinational enterprises. Consider this typical

situation: a U.S. manufacturing company sells its products to a subsidiary in Bermuda, which then sells them at a higher price to a related Canadian corporation for resale to the public. If the goods are transferred at less than fair market value to the Bermuda subsidiary and at more than fair market value to the Canadian company, the result of the arrangement is to divert profit from both the United States and Canada to Bermuda, where it is free of tax. In 1975, the then Minister of National Revenue, the Honourable Ron Basford, commented on "the elusiveness of multinationals in the tax context" and "the tax haven problems" as follows:

Since 1968, our Tax Avoidance and Special Investigations groups have been searching out and challenging tax haven situations. A substantial number of reassessments, some involving prosecution, have been issued, and the related tax recoveries have amounted to many millions of dollars.

At present, there are more than twenty important cases, either under investigation or in the appeal process, concerning substantial diversions of income from Canada. 1 /

More specifically, the problem faced by the tax administrator was lack of information. Although he could ascertain the facts relating to those aspects of the transaction that occurred within his jurisdiction, he did not have the facts relating to the part of the transaction that took place in the other country and so was unable to evaluate the degree to which transfer prices were affected by the intermediary tax haven company. When seeking information, say, from the U.S. parent company about the sale to Bermuda, the tax administrator was "stonewalled," as one Revenue Canada official put it, and was told that he was not entitled to it.

In June 1977, the U.S. Commissioner of Internal Revenue and the Canadian Minister of National Revenue formalized a working arrangement under the terms of the Canada-U.S. tax convention, providing for the simultaneous audit of related taxpayers in the two jurisdictions and the exchange of pertinent information on international transactions. As one of the criteria for selecting a case, the present wording of the arrangement requires that there be indications of tax haven activities by the corporate group. Consequently, the simultaneous audit approach is not used to resolve problems related strictly to Canada-U.S. transactions. Such cases are assessed independently by the Department and the IRS, and any resulting double taxation can be referred to competent authority in the normal fashion.

Under the arrangement, each country separately examines taxpayers under its jurisdiction. Before beginning the audit, the authorities meet to plan and co-ordinate the examinations. During each

1 / Address to the Ninth General Assembly of the Inter-American Center of Tax Administrators (CIAT) in Ottawa on June 12, 1975.

stage of the audit, information is exchanged in accordance with the Canada-U.S. tax treaty. Each country submits to the other country potential cases for examination. When these are agreed upon, the audits in each country will cover the same time periods and designated areas. Before the audits, the administrations for each country informally discuss their plans though there is no formal exchange of such plans. The exchange of information must be within the terms of the relevant provisions of the treaty.

Once the information has been exchanged, Revenue Canada then determines whether the Canadian taxpayer should be assessed for some, all, or none of the profit arising in the tax haven. This process may involve an economic or functional analysis of the operations performed in the haven to determine their nature and extent. Only if the taxpayer makes a prima facie case that there are operations of substance in the tax haven would such an economic analysis be undertaken. Revenue Canada officials have stated that in carrying out such an analysis, they would seek assistance from experts in other government departments according to their needs. They have not yet had to conduct functional analyses, since the cases so far selected for simultaneous audit have involved tax haven operations which, in their view, were shams and the transactions clear cases of avoidance.

U.S. authorities are likely to undertake functional analyses at an earlier stage. The IRS Manual Supplement states that among the responsibilities of the National Office, Audit Division are: "To develop an economic analysis of each multinational company selected for simultaneous audit" and "provide the necessary on-site economic expertise." Some preliminary economic study is undertaken even before a company is selected for audit, and once there is agreement to include a company in the program, an economic analysis is undertaken. The IRS has long had economic experts on its staff, particularly for the large case audits, a fact that has caused some commentators to speculate that the greater IRS experience with such analysis may give it an advantage over its Canadian counterpart in determining the allocation of tax haven profits between the two countries. This view is rejected by Revenue Canada officials as being totally without merit.

In the past, when tax haven operations amounted to little more than a maildrop or a billing office, Revenue Canada officials acknowledged that it was relatively easy to establish that they were without substance and assess the tax haven profits to domestic taxpayers. In the Dominion Bridge case, for example, Span, a Bahamian subsidiary of the Canadian appellant, purchased steel from Germany and resold it to the appellant at a mark-up. In affirming the assessment of Span's profits to the appellant, the Federal Court held that the "transactions between the appellant and Span were not bona fide but feigned as part of a sham," and further that "Span was used solely as a vehicle to obtain steel at a profitable price; it was a mere agent, a puppet in the hands of the appellant." 2 /

2 / 75 DTC 5150, 5155; [1975] CTC 263, 271; affirmed 77 DTC 5367; [1977] CTC 554.

Similarly, in the recent case of Spur Oil Limited v. The Queen, which involved the deductibility of inflated prices paid by the taxpayer to a tax haven subsidiary for transportation of crude oil, the Court denied a deduction for the transportation charges, noting that "what the officers and directors and the solicitors at Bermuda did was act merely as scribes under the direction of [a major U.S. shareholder] for the purpose of having Directors' meetings declaring dividends.... Other than that, they did practically nothing because Tepwin [the tax haven company] did not carry on the business of buying, selling and delivering crude oil in 1970." 3 / In more recent times, however, multinationals have been investing the tax haven operations with a measure of substance, and the result is that it is more difficult for the authorities to refuse to recognize any allocation of profit to the haven. The question then becomes essentially one of "reasonableness" -- would an unrelated person have received similar compensation for the functions performed?

Experience to date indicates that the revenue authorities have been proceeding fairly slowly with the program. Relatively few companies have been suggested for the audit and only about half a dozen have been selected. Some companies that were selected were dropped for a variety of reasons. In one case, it turned out that the problem related to strictly Canada-U.S. transactions with no tax haven involved. In another, the file was withdrawn when prosecution for fraud was commenced against the company in the United States. In a third case, the company selected by Canada had recently been audited by the IRS and it was considered inappropriate to subject it to another audit, although it might well be a candidate at a later date. Also, if there is minimal interest by one of the parties, it may be unwilling to commit the necessary resources and will reject the company for the program. Revenue Canada does not wish to have more than three or four companies under simultaneous audit at any one time, since it is a very expensive undertaking involving considerable audit manpower and time. Accordingly, it is very selective in suggesting candidates for the program.

One case that has been accepted for simultaneous audit involves a corporation carrying on business in the South Pacific that sells its product to a tax haven company, which in turn sells to related companies in Canada and the United States. Documents relating to the multinational's activities were seized in December. The case is still in the early stages, as is another case, in which a U.S. parent manufactures fine mechanical instruments that it sells to a Bermuda subsidiary, which resells at a mark-up to a sister company in Ontario.

The case furthest advanced involves a U.S. company that sells food to a Bermuda affiliate, which then sells to a Canadian sister company. The Canadian company has been assessed for additional tax

3 / 80 DTC 6105, 6122 - 23; [1980] CTC 170, 191 (FCTD).

on all the profits alleged to have been diverted to Bermuda, the United States apparently having expressed no interest in those profits. The Canadian company is presently seeking information from its European parent that will enable it to justify the amounts paid to Bermuda, where it has several employees and from where it conducts worldwide sales.

Some concern has been expressed about the likelihood of disclosure by the revenue authorities of information provided by the other country. The information is supplied under the provisions of the Canada-U.S. tax convention which, unlike many tax treaties, does not contain a secrecy clause restricting the disclosure of such information. (An IRS official has stated that the new Canada-U.S. treaty will contain a secrecy provision.) Canadian officials regard themselves as prohibited by section 241 of the Act from disclosing information except in the very limited circumstances provided therein. A request received by Revenue Canada from a Canadian company seeking access to information provided by the IRS about the U.S. company was refused.

Revenue Canada would consider disclosing the information only if a waiver was obtained from the U.S. company and probably not even then without a legal opinion from the Department of Justice.

The problem of confidentiality is greater in the United States by reason of the provisions of the Freedom of Information Act. According to IRS officials, if they received a request for information supplied by Canada, they would likely ask Revenue Canada if there was any objection to the disclosure and, if there was, would refuse the request on the ground that disclosure would impair an investigation under the Internal Revenue Code. The IRS Manual Supplement states that: "Caution should be used in considering any request for disclosure of information received by the United States from Canada."

It is probably too early to draw any firm conclusions about the effectiveness of the working arrangement, which is still in the embryo stage. Various problems have had to be worked out as the program was implemented — for example, what to do about disclosures and how to deal with differing administrative procedures. Officials in both countries feel that the issues have been largely resolved and that the arrangement has been a success, not on the basis of the additional revenue generated (since no case has yet been concluded under the program) but rather because of the much better information now available to them. For example, Revenue Canada is now in a much stronger position than before to challenge pricing arrangements because of access to information about the U.S. part of the transaction. Of course, just as the revenue authorities of the two countries may have differing views as to the proper allocation of profits in a strictly Canada-U.S. transaction, so too may they disagree as to the proper allocation of profits among themselves and the tax haven. But they assert that having full information about the transaction will greatly assist in the resolution of the problem.

The apparent success of the simultaneous audit program

is likely to lead to further similar arrangements. For example, Canada is now discussing with the U.K. tax authorities the selection of suitable candidates for examination. The United States has entered into working arrangements with the United Kingdom and France and, on a more limited basis, with the Federal Republic of Germany. Revenue Canada is also considering participating in a tri-level audit, and a statement in the IRS Manual Supplement contemplates multiple simultaneous audits. By spinning a worldwide network of such working arrangements, tax officials may be able to counter the ability of multinationals to arrange their affairs so as to deflect income tax to low-tax jurisdictions. While forecasting is hazardous, particularly with respect to the future, as one wag has put it, it is perhaps not fanciful to contemplate half a dozen or more countries co-operating to breach the information barrier on tax haven operations.

Further co-operative ventures may follow in the wake of the simultaneous audit arrangement. A Revenue Canada official would like, for example, to see the scope of the program expanded to cover such problems as the underground economy and barter transactions. An IRS official thought that the program might well lead to exchanges of information on entire industries. The IRS has identified twelve industries for examination. No particular taxpayer would be involved, but rather information as to the operations of the industry on a worldwide basis would be gathered and exchanged and, among other things, would help tax administrators to arrive at better arm's length pricing standards.

Also, continuing co-operation might result in spontaneous disclosures, so that if the revenue authorities in the United States detected modes of business conduct that they thought ought to be brought to the attention of Revenue Canada, they would do so without a specific request. Under the present Canada - U.S. treaty, disclosure of tax information is authorized only "upon request" (Article XXI).

Mutual Assistance in Tax Collection

We turn now to the second problem outlined at the outset -- that of tax evasion by the taxpayer who flees the country with his assets, say, to the United States. Can Canadian tax authorities enforce collection of Canadian taxes in the United States? The answer, I think, is no. For one thing, there is no provision in the Canada - U.S. treaty for mutual assistance in tax collection. For another, although a foreign government has never attempted to enforce a tax claim in U.S. courts, it is a virtual certainty that the well-entrenched common-law rule would be followed that the courts of one country will not entertain a suit to enforce the revenue laws of another.

The rule was applied by the Supreme Court of Canada in 1963 in United States v. Harden 4 / to deny a tax claim by the U.S.

4 / 63 DTC 1276; [1963] CTC 450.

government. In that case, the United States obtained a stipulated judgment in a federal district court for approximately \$640,000 of taxes and interest against Mrs. Harden, whereupon she fled to Canada with all of her assets. The Canadian courts refused to enforce the U.S. judgment, citing an unbroken line of precedent in English jurisprudence. The court suggested two explanations for this ancient rule: (1) efforts by one sovereign to enforce its taxes within the territory of another constitute an extraterritorial intrusion; and (2) the courts upon enquiry into the policies behind the taxes may find that they run counter to the public policy of the domestic state and refuse to enforce them, thereby causing embarrassment to its neighbour.

Although the United States lost the Harden case, it has made efforts on at least two occasions to circumvent the rule in seeking to collect U.S. taxes in foreign countries. In United States v. First National City Bank, 5 / the Commissioner of Internal Revenue issued an assessment for \$19 million against a Uruguayan corporation, Omar, S.A. Prior to the assessment, Omar had liquidated its securities and transferred funds out of the United States, some of them being transferred to Citibank's branch in Montevideo. In a majority decision, the U.S. Supreme Court held that U.S. courts had jurisdiction to freeze the account in Montevideo by enjoining Citibank from transferring any property held therein for Omar. Two judges wrote a strong dissent.

The IRS made a similar effort at collection in Canada in 1968. The Ontario client of a brokerage firm complained to the Ontario Securities Commission that the Toronto office of the U.S. firm was withholding securities and a cash balance from him. The Toronto branch was doing so because the U.S. Treasury Department had served a tax claim against the client through the firm's New York office. The Commission ruled that the Toronto office could continue doing business in Ontario only if it agreed not to apply "directly or indirectly any law, decision, judgment, order or ruling issued by the government or courts of any other jurisdiction unless and until such judgment or ruling shall have been confirmed and made applicable by the courts of this Province." 6 / The Treasury's action evoked strong negative feelings here. According to a Toronto newspaper, "One Securities Commission official said the action found precedent only back in the days of the 'Underground Railroad' which transported Negro slaves to freedom in Canada. At that time, rejecting a Washington request for the slaves' return, an Ontario judge said: 'In Ontario, Negroes are free.'" 7 /

5 / 379 U.S. 378 (1965).

6 / Bulletin of the Ontario Securities Commission, Toronto August 1968, 183-84.

7 / Toronto Star, September 28, 1968.

A preferable approach to countering the garden-variety tax evasion, where the taxpayer simply does not pay taxes that are due to the taxing state and removes all his assets from that state, would be through treaties for mutual assistance in the collection of taxes. 8/ There should be no underestimating the problems in drafting individualized reciprocal enforcement provisions that are clear, effective, and fair. Obviously difficult questions need to be resolved -- for example, verification of the tax, determining whether "due process" has been provided, and deciding whether the collection assistance should be limited to proceedings against nationals of the foreign treaty country and not applied against nationals of the collection treaty country. On the other hand, if the current laws of the taxing state are repugnant to a potential treaty partner, there would be (and should be) no treaty.

A treaty also might include a provision to the effect that enforcement is not required if the tax sought to be enforced was contrary to the public policy of the enforcing state. The United States has been reluctant to enter into treaties containing a general enforcement provision -- that is, "A provision that, with certain exceptions, each state will collect taxes imposed by the other." 9/ It has, however, entered into many treaties having a limited enforcement provision -- that is, "A provision that each state will collect taxes of the other to the extent necessary to prevent persons not entitled to the benefits of that particular treaty from receiving them." 10/

In the early 1950s, the United States entered into several treaties with general collection provisions but the Senate, in ratifying the treaties, imposed certain qualifications that narrowly confined the mutual collection provision. The Senate Foreign Relations Committee stated that "...the Committee believes that the collection provisions of the South African, Greek and Norwegian income-tax conventions are too broad, and it repeats that, as a general rule, it is not believed wise to have one government collect the taxes which are due to another government..." 11/

A contrary view was taken by the Carter Commission, which stated: "It is...our opinion that a serious lack in the international area is the absence of co-operation in the enforcement of tax liabilities to other countries. We have proposed...that arrangements be entered into by treaty, under which, on a reciprocal basis, Canadian courts would enforce liabilities owing to another country by persons over whom they had jurisdiction." 12/

8/ For a recent discussion of this subject, see Johnson et al., "Reciprocal Enforcement of Tax Claims Through Tax Treaties" (1980), 33 The Tax Lawyer 469.

9/ Id., 473.

10/ Id., 473.

11/ Federal Tax Treaties (Englewood Cliffs, N.J. : Prentice Hall), 41, 104.7

12/ Canada, Report of the Royal Commission on Taxation, vol. 4 (Ottawa: Queen's Printer, 1966), 570.

Support for this approach is to be found in the Nordic Mutual Assistance Convention between Sweden, Denmark, Finland, Iceland, and Norway, which entered into force on January 1, 1973. It provides, among other things, for "assistance in relation to the payment and collection of taxes." A safety valve provision, Article 6, states: "A request for assistance may be refused if the State requested regards this as being against the public interest."

In addition, a working party of the Organization for Economic Co-operation and Development has been preparing, for at least three years, a model treaty for mutual assistance in the collection of taxes. It appears that the draft treaty will be considered by the Committee on Fiscal Affairs in June and will likely be published late this fall.

The federal government's position on mutual collection provisions is not clear. That it may be moving in the direction of including such provisions in its treaties is indicated by the recently concluded Canada-U.K. income tax convention (1978), which contains a limited enforcement provision (Article XXVII.5) to the effect that each state will collect taxes of the other to the extent necessary to prevent persons not entitled to the benefits of the treaty from receiving them.

There may be sound reasons why mutual collection provisions should not be included in our treaties. In light of the fact that Canada is currently negotiating numerous treaties, it is not too early to open up public discussion of the advantages and disadvantages of such measures.

Extradition

If reciprocal measures for tax collection are not provided in our treaties -- or even if they are -- another remedy for dealing with evasion across frontiers is extradition. That is, Mrs. Harden might have thought twice about fleeing to Canada if tax evasion had been a returnable offence under our extradition treaty with the United States. Although it is not at the present time, Canadian law is undergoing change.

Bill S-8, introduced in the Senate on January 31, 1978, contains substantial amendments to the Fugitive Offenders Act and the Extradition Act. 13/ The former statute applies to Common-

13/ The bill was passed by the Senate and received second reading in the House of Commons when the parliamentary session came to an end. It was reintroduced in the Senate as Bill S-9 on November 16, 1978 but failed to become law when Parliament was dissolved for the election of March 22, 1979. It was reintroduced for the third time on October 23, 1979 as Bill S-8 and again failed to become law when the government was defeated on December 13, 1979.

wealth countries (of which there are about 70) and the latter to other countries. Among the many significant changes to the legislation is the inclusion for the first time of income tax evasion in the list of returnable offences. One of the main objectives of the bill is to make the law more applicable to modern criminal activities. The Fugitive Offenders Act was first introduced in 1882 and has remained substantially unchanged for the past 98 years. In speaking to the bill before the Senate Standing Committee on Legal and Constitutional Affairs, the Honourable Ron Basford, Minister of Justice, said:

This bill's purpose is to permit us, under certain conditions, to return foreign offenders to the countries where they committed their crimes, both within the Commonwealth, under the Fugitive Offenders Act, and, other countries, by way of the Extradition Act. At the same time, the proposed legislation would enable us to more effectively seek the return for trial [of] Canadian offenders who have fled our borders.... The list of offences ...has been modernized and up-dated and includes such serious modern-day criminal phenomena as... income tax evasion.... 14/

He went on to point out that the new legislation would permit extradition for offences listed in the schedule even if they were not set out in a treaty:

For example, one of the modern offences is income tax evasion. There are a good many countries that will not extradite for revenue offences. They are not covered in old treaties, and so they will not extradite people for revenue offences or income tax evasion. We are saying that we are ready to extradite and we are ready to deliver for income tax evasion. Administratively, we would ask for reciprocity — we want our tax evaders who are in their country back again — but we need not ask for it. 15/

The need for such measures was made apparent recently. In 1977, Charles Vernon Myers was convicted of income tax evasion by the District Court of the Judicial District of Calgary 16/ and was sentenced to prison. He was allowed out on a weekend pass, but instead of returning to jail, fled to the United States where apparently he still resides. Since neither income tax evasion nor being unlawfully at large is currently an extraditable offence, he cannot be returned to Canada.

14/ February 21, 1978, 5:6, 7.

15/ Id., 5:18.

16/ 77 DTC 5278; [1977] CTC 507.

Are other countries likely to recognize tax evasion as a returnable offence? Many are. The Council of Europe, in its report of January 16, 1978, referred to the activities of the European Committee on Crime Problems:

The work of this committee has resulted, among other things, in the elaboration by an expert committee of two additional protocols to the European Conventions on Extradition and on Mutual Assistance in Criminal Matters. The purpose of these protocols is to extend these two conventions to tax offences....

At the end of 1977 these two protocols have been unanimously adopted by the Committee of Ministers and will be opened for signature and ratification in March 1978. The rapid implementation of these two protocols would obviously make a very useful contribution to co-operation among the Council of Europe member states against tax avoidance and evasion. 17/

The United States, too, has included tax evasion as an extraditable offence in its recent treaties. In its treaty with Japan, for example, which entered into force on March 26, 1980, "an offence relating to willful evasion of taxes and duties" is listed. The German treaty, entered into in 1978, has a similar provision. The flexibility of the treaty approach in resolving international problems is apparent in the German treaty, which recognizes the public policy sensibilities about enforcement of foreign revenue laws. Article 6 provides that if the Requested State determines that extradition for a fiscal offence would be contrary to the public policy or other essential interest of that State, extradition may be refused.

It is hoped that the present session of Parliament will see the amendments to the Fugitive Offenders Act and the Extradition Act emerge as law.

Conclusion

A recent brief article in The Economist ^{18/} began with the statement that "Tax evasion...and avoidance...seem everywhere on the rise, but effective international co-operation to control them remains elusive." This view seems unduly pessimistic. It is doubtless true that bolder measures of international co-operation are necessary if

17/ (1978), 18 European Taxation 167.

18/ March 22, 1980, 68-9.

these fiscal maladies are to be effectively checked. But the prognosis is not altogether bleak from a Canadian perspective. The simultaneous audit program holds promise of opening a window onto the tax haven operations of multinational corporations and this constitutes a step forward -- perhaps a relatively small one -- in efforts to police intercompany pricing arrangements.

The experience of the Nordic countries with tax collection arrangements is encouraging, and the imminent unveiling by the OECD of a model treaty for mutual tax collection may be the fillip necessary to stimulate interest in the negotiation of such provisions. Finally, the recognition of tax evasion as an extraditable offence by Commonwealth countries and others will make the world a smaller place for those who would attempt to escape their tax liabilities by crossing international boundaries.

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

The Foundation in 1979

Publications and Research

Publications are a major feature of our activities, constituting as they do 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 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 several features. One of the most popular, "Estate Planning in Canada," came to an end in the November-December 1979 issue. Sheldon Silver, after five years as co-editor (with Stanley Taube) and four years as editor, decided to relinquish the feature. I take this opportunity to extend our warmest thanks for exemplary service to the Canadian tax community. For the convenience of members who are particularly interested in the field of estate planning, the features contained in the 1976 to 1979 issues of the Journal are being reprinted as a separate booklet which is available from the Publications Department for a nominal charge.

It is a pleasure to record that two new features have been added this year. The first is "Personal Tax Planning," which is edited by W. E. Crawford, C.A. and P. O. Gratias, C.A., both of Clarkson Gordon in Toronto. The other, which will appear for the first time in the March-April issue, is "Selected U.S. Tax Developments." It will be edited by Sidney I. Roberts, senior partner in the law firm of Roberts & Holland of New York, Washington, and Miami.

The twenty-sixth edition of The National Finances, the Foundation's annual analysis of the government's revenues and expenditures, was distributed to members last week. Our biennial companion piece, Provincial and Municipal Finances, which analyzes the revenues and expenditures of provincial and local governments, was published in December.

Two new issues were added to our series of tax papers. Roger S. Smith's Tax Expenditures: An Examination of Tax Incentives and Tax Preferences in the Canadian Federal Income Tax System examines various incentives, concessions, and preferences granted in the personal and corporate income taxes and attempts to calculate the revenue forgone by the federal government as a result of these measures. An appendix setting out detailed estimates of the cost of tax expenditures to the public treasury was prepared by the Foundation's research staff.

A welcome addition to the scanty information available on assessment practices and procedures in this country is Property Assessment in Canada, by F. H. Finnis.

The first in the Foundation's series of studies on Financing Canadian Federation was published last fall. In Financing Canadian Government: A Quantitative Overview, Richard Bird provides a conspectus of the main quantitative dimensions of government activity in Canada in the post-war period and examines some of the major reasons for the observed trends. He presents data on the growth and changing composition of public expenditures and the public debt and also provides a comparison with parallel developments in other countries in order to place Canadian experience into better perspective.

Other publications distributed to members over the past year include Tax Memo No. 61 1978 Tax Developments, our annual compilation of tax developments in Canada as reported in the Journal feature "Checklist"; the report of the proceedings of the 1979 Corporate Management Tax Conference; and the report of the proceedings of the 1978 Annual Conference. The delay in the publication of the last mentioned report, which we very much regret, was attributable to production and distribution problems that could not be resolved easily.

As the Chairman noted, the research and publications program for 1980 is shaping up to be a very busy one. Six studies have been completed and will soon be ready for publication, three of them being in the Financing Canadian Federation series, about which I will say more in a moment.

In their comprehensive study, Canadian Tax Policy, Professors Harry Kitchen and Robin Boadway discuss the development of the Canadian tax system and analyse the major taxes imposed by the federal and provincial governments.

Professor Richard Bird recently completed the preparation of a background paper on tax incentives for investment, a subject of growing importance in light of the increasing number and variety of tax incentives to business investment in Canada. The paper surveys the existing literature on the subject and suggests a plan for possible further research in this area.

F.H.Finnis's The Weight of Residential and Nonresidential Property Taxation in Canada provides comparative information on the burden of property taxation in the various provinces.

A project commenced late in 1979 will be of great interest to Foundation members. Howard J. Kellough and P.Nicholas Geer, C.A., have undertaken a major study of the taxation of and planning for closely held corporations.

The vexing question of the meaning of 'cost' in Canadian income taxation is the subject of a study by Professor Keith McNair, F.C.A. He is concerned with the meaning of 'cost' in various contexts -- for example, inventory valuation, capital gains, and capital cost allowance.

A popular Foundation study, which has long been out of print, The Allocation of Taxing Power Under the Canadian Constitution, by Gerald V. LaForest, is being revised by the author and will be ready for publication later this year. The study focusses on the role the courts have played in the development and definition of taxing powers in Canada. A number of important decisions have been rendered since the study was published in 1967 and will be analysed and examined in the new edition.

I am glad to be able to report that of the six remaining studies in the Financing Canadian Federation series, three have been completed and good progress has been made with the other three.

1. Intergovernmental Transfers in Canada. Transfers of funds from higher to lower levels of government have been an important aspect of the Canadian federal system for many years. This study by Robin Boadway discusses transfers or grants originating with the federal and provincial governments.

2. The Acceptable Mean: The Tax Rental Agreements 1941-1962. Tax collection and administration in Canada were never more efficient -- or more centralized -- than during the period of the tax rental agreements, from 1941-1962. An analytical history of the agreements, which draws on Department of Finance files, the Archives, Privy Council Office material, and provincial data has been prepared by R.M. Burns.

3. The Fiscal Dimension of Canadian Federalism. A small conference of experts was convened last October under the auspices of the Foundation to discuss and analyse present and future fiscal dimensions of Canadian federalism. The proceedings of the conference, including the papers presented, the discussants' remarks, and an introductory chapter, have been prepared for publication by Richard Bird.

4. The Financing of Canadian Federation. This study is a thorough revision and updating by David Perry of the Foundation's classic 1966 study of the historical evolution of federal-provincial fiscal arrangements. The revision will bring the story up to date through the important changes of 1977.

5. Sharing and Co-Ordinating Taxing Power and Revenues in Canada: The Federal-Provincial Tax Collection Agreements. This study complements the Burns study, providing a detailed and informed account of the origin of tax collection agreements in 1962 and their evolution to the more flexible structure of 1977. The principal researcher is Ernest H. Smith, formerly a member of the Tax Policy Division of the Department of Finance.

6. Financing Canadian Municipalities. The purpose of this study is to provide a detailed examination of the finances of Canada's third level of government — the municipalities. It seems unlikely, in view of the enormous scope of the task, that the work can be completed before the end of 1981.

Various other projects of a long-term nature are under preliminary study.

Staff

There have been several changes in personnel since the last Annual Meeting.

Patricia A. Hillmer joined the staff on March 1, 1979, having come to the Foundation from the Canadian Institute of Chartered Accountants, where she served as Conference Administrator and Public Relations Assistant. In discharging her responsibilities as administrator of our several conferences over the past year, Ms Hillmer has doubtless become a familiar figure to many Foundation members. In addition to her conference duties, she has provided assistance in editing manuscripts.

Last June, Marion Bruce resigned as receptionist and secretary. Her duties have been assumed by Delia Perry.

Catherine Frost, who served as Editor for nearly three and a half years, left in July to go into business on her own as a physiotherapist and freelance editor. However, the separation is

far from complete, since she continues to provide editorial services to the Foundation on a regular basis.

To succeed Ms Frost as Editor, I am happy to report the appointment of Laurel Schwartz, who came to the Foundation last August. She carries the important responsibility of making arrangements for the editing of all the material to be published and attending to its production with our printers. She is a valuable addition to the staff and we welcome her to our ranks.

We lost the services of Nestor Roldan, who resigned as Assistant Librarian in July. His successor is Ron MacLeod, whose wide experience in library work has already proved to be so beneficial.

I should now like 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 our studies that involve statistical data and is the author of the Journal feature "Fiscal Figures." Mary Gurney's activities are increasingly centred on our statistical work, although she continues to assist in public relations and conference affairs. Millie Goodman keeps the members up to date on current developments in public finances in her Journal feature "Checklist" and also helps in the preparation of many other publications.

An invaluable aid to tax research is, of course, the library. Our Librarian, Marjorie Robinson, and her assistant, Ron MacLeod, maintain our growing collection, assist the research staff, and meet numerous requests from Foundation members, university students, and others who, as the Chairman noted, are using our facilities in increasing numbers.

John Buckell continues to contribute to the prudent management of our finances and is ably assisted by Burt Joyner.

I should like to take this occasion to acknowledge with deep appreciation the unfailing co-operation and assistance that I have received throughout the year from the secretarial staff -- Thora Harris, Anne Mc Alonen, and Evelyn Thompson. Their efficient service has been essential in all of our activities.

A delightful social event last May was a luncheon attended by the staff, former staff, the Chairman, and others to celebrate the twenty-fifth anniversary of service to the Foundation by Mary Gurney and Evelyn Thompson, the first to attain this milestone. For their friendship and complete dedication to their duties, I extend warmest thanks to both of them, not only for myself but also for all who have had them as colleagues.

In conclusion, I must express my sincere appreciation on behalf of the staff for the interest and encouragement of the Board of Governors and of the members at large. On a more personal note, I want to say how much I have enjoyed a most cordial and congenial association with our Chairman, Bill Goodlet, and the other officers and governors. I welcome the incoming Board of Governors and assure them that the staff will do its utmost to ensure another successful year under their direction and guidance.

D. J. Sherbaniuk
Director
April 15, 1980

