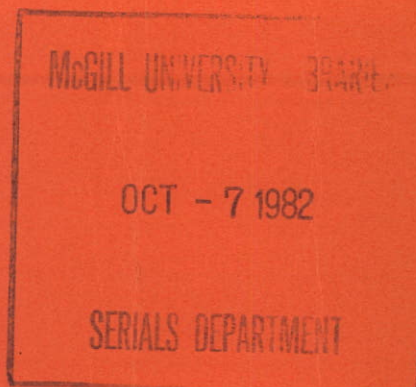
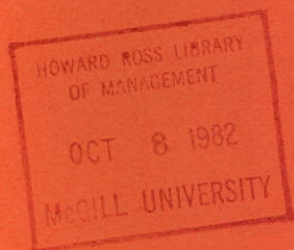


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Thirty-Sixth Annual Report

For the year ending December 31, 1981



Canadian Tax Foundation
L'Association Canadienne
d'Etudes Fiscales

130 Adelaide Street West, Suite 1900, Toronto, Canada M5H 3P5

Thirty-Sixth Annual Report

For the year ending

December 31, 1981

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 6, 1982

D. G. Barry	Saint John
J. N. Beal, C.A.	Toronto
C. A. Blanchard	Quebec
* F. W. Chenhall, C.A.	Halifax
* J. C. Couture, Q.C.	Montreal
G. D. N. Covert	Halifax
J. H. Currie	Calgary
D. W. Davies, FCA	Toronto
F. W. Davis, C.A.	Moncton
R. G. Dittmer, C.A.	Saskatoon
H. R. Germain, C.A.	Montreal
J. S. Hausman	Toronto
G. H. Heximer, C.A.	Edmonton
H. J. Kellough	Vancouver
L. A. Kyle	Regina
M. A. Leduc	Montreal
André Lesage, C.A.	Montreal
B. G. Levine, C.A.	Montreal
* R. F. Lindsay, Q.C.	Toronto
P. E. McQuillan, FCA	Toronto
Jean Monet, Q.C.	Montreal
D. C. Nathanson	Toronto
* J. S. Palmer, Q.C.	Calgary
* Charles Pelletier, C.A.	Quebec
H. O. Pintea, C.A.	Winnipeg
* G. W. Riehl, FCA	Toronto
D. W. Robertson, C.A.	Victoria
R. G. S. Shead	Winnipeg
D. W. Smith	Toronto
* G. A. Stekl, C.A.	Vancouver
D. G. Sweet, FCA	Vancouver
J. E. G. Vavasour	St. John's
D. J. Warr, C.A.	St. John's
D. E. Wikant, FCA	Calgary

* Executive Committee of the Board of Governors

OFFICERS

J. Claude Couture, Q.C. Chairman

G. W. Riehl, F.C.A. Vice-Chairman and
Chairman of the Executive Committee

J. S. Palmer, Q.C. Vice-Chairman

Charles Pelletier, C.A. Past Chairman

Douglas J. Sherbaniuk, Director

Vacant 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. Hutchinson, 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
* William E. Goodlet, F.C.A., Toronto
* Stanley E. Edwards, Q.C., Toronto
* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1981

ASSETS			
OPERATING FUND		1981	1980
CURRENT ASSETS			
Cash		\$ 25,917	\$ 210
Investments (note 2)		1,147,788	2,349,500
Accounts receivable and deposit		32,936	25,131
		<u>1,206,641</u>	<u>2,374,841</u>
FIXED ASSETS			
Furniture and office equipment		98,885	72,709
Leasehold improvements		90,400	90,400
		<u>189,285</u>	<u>163,109</u>
Accumulated depreciation and amortization		<u>36,128</u>	<u>17,200</u>
		153,157	145,909
RESEARCH ENDOWMENT FUND (note 3)			
Investments, at cost		1,500,000	—
TRUST FUND			
Cash		—	4,450
		<u>\$2,859,798</u>	<u>\$2,525,200</u>
LIABILITIES			
OPERATING FUND			
CURRENT LIABILITIES			
Bank indebtedness		\$ —	\$ 73,995
Accounts payable		253,638	267,653
Deferred revenue		328,736	283,793
		<u>582,374</u>	<u>625,441</u>
BALANCE OF FUNDS			
BALANCE OF OPERATING FUND		777,424	1,895,309
BALANCE OF RESEARCH ENDOWMENT FUND (note 3)			
Capital		1,500,000	—
TRUST FUND LIABILITY			
Taxation and economic growth study fund, joint project with Queen's University		—	4,450
		<u>\$2,859,798</u>	<u>\$2,525,200</u>

Approved on behalf of the Board of Governors:

Charles Pelletier
Chairman

J. C. Couture
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF REVENUE AND EXPENSE YEAR ENDED DECEMBER 31, 1981

REVENUE	1981	1980
Subscriptions:		
Individual	\$ 434,954	\$ 377,913
Corporate	195,508	187,827
	630,462	565,740
Conference registrations	1,096,719	851,101
Investment income	384,460	235,811
	<u>2,111,641</u>	<u>1,652,652</u>
EXPENSE		
Conference direct expenses	599,942	413,717
Research salaries	272,701	226,271
Rent	211,950	100,856
Publications	178,243	150,267
Administration salaries	129,522	115,720
Special studies	78,036	20,394
Postage	47,381	29,671
Pension and insurance plans	34,856	89,861
General office expense	27,974	24,177
Library books and periodicals	27,881	24,667
Write down of investments to market value	26,712	—
Travelling	26,589	18,812
Office printing, stationery and supplies	26,517	18,782
Telephone and telegraph	19,113	7,050
Depreciation and amortization expense	18,928	16,401
Research consulting	3,181	5,187
Relocation	—	30,609
Loss on disposal of fixed assets	—	19,053
	<u>1,729,526</u>	<u>1,311,495</u>
EXCESS OF REVENUE OVER EXPENSE for the year	<u>\$ 382,115</u>	<u>\$ 341,157</u>

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1981

OPERATING FUND BALANCE	1981	1980
Balance at beginning of year	\$1,895,309	\$1,554,152
Excess of revenue over expenses for the year	382,115	341,157
	<u>2,277,424</u>	<u>1,895,309</u>
Transfer to research endowment fund (note 3)	1,500,000	—
Balance at end of year	<u>\$ 777,424</u>	<u>\$1,895,309</u>
RESEARCH ENDOWMENT FUND (note 3)		
Transfer from operating fund	\$1,500,000	—
Balance at end of year	<u>\$1,500,000</u>	<u>—</u>

STATEMENT OF TRUST FUND LIABILITY YEAR ENDED DECEMBER 31, 1981

	1981	1980
BALANCE, beginning of year	\$ 4,450	\$ 5,979
Interest income	593	471
	<u>5,043</u>	<u>6,450</u>
Expense of special study	5,043	2,000
BALANCE, end of year	<u>\$ NIL</u>	<u>\$ 4,450</u>

CANADIAN TAX FOUNDATION

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1981

WORKING CAPITAL DERIVED FROM	1981	1980
Operations		
Excess of revenue over expense	\$ 382,115	\$ 341,157
Add back depreciation and amortization, not requiring a current outlay of funds	18,928	16,401
Working capital derived from operations	401,043	357,558
Loss on disposal of fixed assets	—	19,053
	401,043	376,611
WORKING CAPITAL APPLIED TO		
Transfer to research endowment fund (note 2)	1,500,000	—
Additions to fixed assets	26,176	156,033
	1,526,176	156,033
(DECREASE) INCREASE IN WORKING CAPITAL	(1,125,133)	220,578
WORKING CAPITAL — beginning of year	1,749,400	1,528,822
— end of year	\$ 624,267	\$ 1,749,400
COMPONENTS OF WORKING CAPITAL		
Current assets	\$1,206,641	\$2,374,841
Current liabilities	582,374	625,441
	\$ 624,267	\$ 1,749,400

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1981

1. SIGNIFICANT ACCOUNTING POLICIES

Investments

Term deposits and guaranteed investment certificates are recorded at cost which approximates market value. Other investments are recorded at market.

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.

Deferred Revenue

Subscriptions and conference revenues applicable to future periods are recorded in the accounts as deferred revenue.

2. INVESTMENTS

A summary of investments is as follows:

	1981	1980
Operating Fund		
Term deposits and guaranteed investment certificates maturing in — 1981	—	\$2,000,000
— 1982	\$1,025,000	100,000
Other investments	122,788	249,500
	\$1,147,788	\$2,349,500
Research Endowment Fund		
Term deposits maturing in 1982	\$1,500,000	

3. RESEARCH ENDOWMENT FUND

During the year the Governors decided to appropriate an amount of \$1,500,000 on December 31, 1981 out of the Foundation's operating funds as a Board-designated Research Endowment Fund. These funds are recorded separately; the income therefrom is to be used to finance studies and research projects concerning tax matters in Canada.

4. LEASE COMMITMENT

The Foundation rents office space pursuant to a lease expiring in 1990. The basic annual rent is \$153,888 until 1985 and \$174,755 thereafter plus an amount representing property tax and operating costs.

5. PUBLICATION COMMITMENTS

At December 31, 1981 the Foundation has commitments of approximately \$650,000 for the future production of various publications and tax papers.

6. PENSION COSTS

The Foundation has a trustees, non-contributory pension plan covering substantially all of its salaried employees. The total expense for the year was \$16,065 (\$75,618 for 1980).

7. COMPARATIVE FIGURES

The 1980 comparative figures were examined and reported on by other auditors.

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, 1981 and the statements of revenue and expense, balance of funds, 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 consider necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Foundation/L'Association as at December 31, 1981 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 28, 1982

CLARKE, HENNING & CO.
CHARTERED ACCOUNTANTS

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

APRIL 6, 1982

This report marks the close of the Canadian Tax Foundation's thirty-sixth year of operation which, I am pleased to say, has been a year of progress and achievement. Several new research projects were undertaken, our conferences were well received from coast to coast and, as the Director will elaborate, our efforts have yielded an impressive dividend in recent and forthcoming publications. We have also enjoyed a growth in individual and corporate memberships and, financially, although the high rate of inflation experienced throughout 1981 was reflected in our expenditures, the year ended with a substantial increase in the resources for carrying on our work.

This is the substance of my report today. The details of our activities can best be discussed under their appropriate headings.

Membership and Finance

As you know, the Foundation since its inception has been financed primarily by subscriptions from its individual and corporate members. It is most encouraging to be able to report a significant increase in individual memberships in 1981. At December 31, there were over 9,000 individual members, a net increase of 664 for the year, compared with 439 in 1980.

As for corporate memberships, at December 31 there were 427 corporate subscribers, a net increase of 22 over the previous year. If we add to these some 200 companies represented indirectly through association memberships on their behalf, we now have a total of about 627 corporate supporters. A special effort will be made this year to attract new corporate members, for corporate revenues have not kept pace with the growth in individual membership revenues.

I would like to take this occasion to express the gratitude of the Foundation to Mr. Dennis F. Culver, FCA, President of the Canadian Institute of Chartered Accountants, who wrote to all members of the Institute last November to bring our work to their attention and to encourage their support of the Foundation. As a result of his letter, over 440 individual memberships and 10 corporate memberships have been taken out to date.

The audited financial statements that accompanied the Notice of Annual General Meeting set out the Foundation's financial picture for 1981. Let me elaborate on a few aspects of the story the figures tell. Subscription revenues, the principal source of income, increased by \$65,000 to a total of \$630,000, reflecting the increase in the individual membership rate from \$55 to \$60 for a regular membership, from \$27.50 to \$30 for a special membership, and from \$225 to \$250 for the minimum corporate subscription, all effective January 1, 1981. Other contributing factors were the new individual

and corporate memberships and increases in the annual subscription of several of our corporate members. It speaks well for our support in the business community that, even in these troubled economic times, 184 corporations increased their subscriptions by a total of \$11,625. The Foundation deeply appreciates these contributions to the resources on which our work depends.

Our conferences, which are the second largest source of income, generated net revenue of \$497,000 compared with \$437,000 in 1980. The high interest rates that prevailed for most of 1981 were reflected in increased investment income, the third largest income category: \$384,000 compared with \$235,000 in the previous year. Investments are handled under the supervision of the Executive Committee with help from professional investment advisers.

Expenditures rose by \$418,000, the main increases being for conference direct expenses, rent, special studies, publications, and salaries. The net result of the year's activities was a favourable balance of \$382,000 compared with \$341,000 in the previous year. Although it is not the avowed purpose of a nonprofit organization to seek a profit, we have a responsibility to make sure that expenses can be met and that our organization will endure and grow.

It is apparent from review of our activities that the Foundation has grown steadily in recent years, and on the basis of projects recently undertaken and plans for the future, we anticipate

further growth. While our finances are in good order at the present time, we recognize the potential for financial difficulty that exists in a combination of such factors as rising costs of labour-intensive operations, persistent inflation, and a deep and protracted recession. The Executive Committee and the Finance and Audit Committee have devoted considerable time and attention to prudent budgeting and management of the Foundation's financial resources, recognizing that the planning of substantial new research projects, some of which may extend over a period of years, will remain dependent on adequate funding.

With a view to ensuring sufficient resources for research, the Board of Governors last November authorized the creation of two research funds, a Board-designated Research Endowment Fund and a Donor-designated Research Endowment Fund. As is explained in the financial statements, the Board appropriated to the first fund an amount of \$1.5 million out of the Foundation's operating funds, the income therefrom to be used to finance studies and research projects concerning tax matters in Canada. You will be interested to know that our projected expenses for the 1982 research program are likely to exceed the income generated by the fund.

With respect to the Donor-designated Research Endowment Fund, it is expected that at some point in the future the Foundation will conduct a concerted campaign for capital funds, with contributions being solicited from members of the Foundation and from others.

Meanwhile, members and friends of the Foundation are encouraged to make provision in their wills for bequests to the Foundation. Of course, even before any capital contribution drive is formally launched, gifts to the fund will be heartily welcomed and will help to assure the Foundation's future stability and effectiveness.

For more than twenty years, an item on our balance sheet has been the Trust Fund Liability, reflecting the balance in a fund created in 1961 to provide financial assistance for the study of the economic effects of taxation to be undertaken by the Department of Economics at Queen's University. In 1981, the fund was terminated when the balance, amounting to \$4,450, was paid to the Department of Economics to help defray the expenses of an international conference on public finance, which was held in Kingston last fall. An article setting out the highlights of the conference is in preparation and will be submitted for possible publication in the Canadian Tax Journal.

Conferences

Public education in the broadest sense is one of the Foundation's primary objectives. It is served not only by our research and publications but also by our conferences. The Annual Conference was held in Vancouver last November and brought together over 1,600 lawyers, accountants, businessmen, government officials, and academics. At the plenary, panel, and workshop sessions a wide variety of issues were analysed and explained by some of the most able experts in Canada.

We were gratified to have visitors from abroad as well as a number of government officials take part in the program. Members who were present at the banquet will recall with pleasure, I am sure, the most delightfully amusing after dinner address by Hubert H. Monroe, Q.C., Her Majesty's Presiding Special Commissioner for the Income Tax.

Although time was very short, speakers in some of the sessions were able to prepare comments on several of the proposals for tax change announced in the November 12, 1981 budget. Also, a number of representatives of the Department of Finance spoke about the budget in some of the panel sessions; and at a plenary session, three senior Finance officials provided a departmental perspective on the principal income tax and sales tax changes.

The 1981 Corporate Management Tax Conference, the eighteenth in this series of meetings designed primarily for representatives of our corporate members and their advisers, was held in Toronto in June and in Edmonton in October. It was devoted to a discussion of "Current Developments in Measuring Business Income For Tax Purposes." Various aspects of this contentious subject were dealt with in eleven papers, which were distributed to registrants before the conference. The luncheon speaker in Toronto was W. R. Jackett, formerly Chief Justice of the Federal Court of Canada, and in Edmonton, the Honourable Dick Johnston, Minister of Federal and Intergovernmental Affairs of the Government of Alberta, who discussed a number of aspects of federal -

provincial fiscal relations. The report of the proceedings, which was published last week, enriches the literature on a dynamic subject of continuing interest.

As for the regional conference program, the sixth annual Prairie Provinces Tax Conference was held in Calgary in January. The British Columbia Tax Conference was held in May under the joint sponsorship of the Faculty of Law of the University of British Columbia. Our French language conference, Journées d'études fiscales, originally scheduled for mid-September, was postponed until January 1982 because of the lengthy postal strike last summer, which made the organization of the conference difficult. In October, the Atlantic Provinces Tax Conference, co-sponsored by Saint Mary's University, was held in Halifax.

The 1981 agenda also included two special conferences. "Tax Policy Options in the 1980s," held in Toronto in March, was concerned with an assessment of the current tax system as well as possible options and new directions in tax policy over the next decade. The report of the proceedings was recently mailed to members. The second special conference, "Tax Treatment of the Petroleum Industry Under the National Energy Program," was held in Calgary in September. Participants provided a technical analysis of the new regime of taxation and incentive measures set out in the National Energy Program and developed further by the Memorandum of Agreement relating to energy pricing and taxation between the governments of Canada and Alberta.

Plans already approved for the current year provide again for an active conference program. In January, the Prairie Provinces Tax Conference was held in Calgary and, as already noted, the postponed Journées d'études fiscales was held in Montreal. The papers delivered at both conferences are now being prepared for publication. The British Columbia Tax Conference, originally to be held on May 5-6, was rescheduled to June 7-8 in the expectation that the bill incorporating the tax changes announced last November, which is the current focus of attention in the tax community, would be available for discussion. This is now uncertain, and the conference has been deferred to the fall, again on a tentative basis, pending publication of the bill. The 1982 Journées d'études fiscales will be held in September. The national coverage will be rounded out in the fall with the Atlantic Provinces Tax Conference, which will be co-sponsored by Dalhousie University.

Another special conference dealing with recent tax developments relating to the petroleum industry will be held in Calgary in October.

The Corporate Management Tax Conference will be held in Toronto in June and in Edmonton in October. The theme for discussion is "Tax Administration, Compliance, and Procedure."

As has already been announced, the 1981 Annual Conference will be held on November 22-23-24 at the Harbour Castle Hilton in Toronto. The program will be devoted in large measure, if not entirely, to an examination and analysis of the forthcoming income tax bill.

Tax Legislation

The major event in the realm of public finance in the past year was the federal budget of November 12, 1981. At the meeting of the Board of Governors on November 22, 1981 two aspects of the budget that were of particular concern were, first, the process by which major tax reform proposals were formulated and introduced without prior public consultation, discussion, and debate, and second, the inadequacy of the transitional measures, as a result of which many of the tax changes would have a retrospective impact on transactions consummated prior to the budget, as well as transactions in progress on November 13 that relied on provisions that had been in the law for many years.

At the direction of the Board, I wrote to the Minister of Finance to make him aware of the Board's concerns. It was the first occasion in the thirty-six-year history of the Foundation that such representation was made. In response to my letter, a Committee on the Budget Process, established by the Foundation, was invited to Ottawa to meet with senior Finance officials to discuss shortcomings in the tax legislative process and to suggest ways of enlarging the opportunities for public consultation and debate. A submission has been prepared by the Committee and is currently under discussion with Finance officials. Members of the Committee are R. J. Dart, FCA; Stanley E. Edwards, Q.C.; Robert B. Goodwin; Gordon W. Riehl, FCA (all of whom are governors of the Foundation); and Douglas Sherbaniuk. It has been my privilege to serve as Chairman.

The Foundation has long been interested in the budget process. In 1976, at the request of the then Minister of Finance, the Honourable Donald S. Macdonald, a committee formed under the auspices of the Foundation prepared a report on the tax legislative process, which was submitted in November 1977 to the then Minister of Finance, the Honourable Jean Chrétien. The report was published in the March-April 1978 issue of the Canadian Tax Journal and has been widely cited and quoted with approval by commentators on the budget process.

Revision of the By-Laws

You will be asked at this meeting to approve an amendment to the by-laws, the purpose of which is to create a new category of "individual members," that of "life members," which will include all members of the Advisory Committee of Past Chairmen of the Board of Governors or any other person whose participation in the Foundation's activities merits his election by the Board as a life member. It seems appropriate that recognition be given in this way for meritorious service that has advanced the affairs of the Foundation.

Life members will receive an appropriately worded certificate as tangible evidence of their status. It is our intention to prepare certificates for all members of the Advisory Committee and confer them at the banquet at the 1982 Annual Conference in Toronto.

Changes in the Board of Governors

Members of the Foundation have received a list of the nominations which, in accordance with the by-laws of the Foundation, have been made by the President of the Canadian Institute of Chartered Accountants, Mr. Dennis F. Culver, FCA, and the President of the Canadian Bar Association, Mr. Paul Fraser. Among the nominees are a number who are not at present Governors. Most of them will be known to you as long-time members of the Foundation and participants in Foundation activities and as leading members of their professions in their respective communities across Canada. I should like to welcome them and to introduce them to you:

J. N. Beal, C.A. (Toronto)
C. A. Blanchard (Quebec)
G. D. N. Covert (Halifax)
J. S. Hausman (Toronto)
G. H. Heximer, C.A. (Edmonton)
H. J. Kellough (Vancouver)
André Lesage, C.A. (Montreal)
D. C. Nathanson (Toronto)
J. S. Palmer, Q.C. (Calgary)
D. W. Robertson, C.A. (Victoria)
R. G. S. Shead (Winnipeg)
D. W. Smith (Toronto)
J. E. G. Vavasour (St. John's)

Mr. Palmer is returning to the Board, having served previously from 1976 to 1979.

The following gentlemen will be retiring from the Board this year:

H. J. Bolton, C.A. (Edmonton)

J. M. Coyne, Q.C. (Ottawa)

R. J. Dart, FCA (Toronto)

S. E. Edwards, Q.C. (Toronto)

B. A. Felesky (Calgary)

Gilles Gagné, C.A. (Montreal)

R. B. Goodwin (Winnipeg)

L. J. Hayes, Q.C. (Halifax)

L. M. Little (Vancouver)

Jean Potvin (Montreal)

Sheldon Silver, Q.C. (Toronto)

Peter Walton, C.A. (Vancouver)

C. W. White (St. John's)

Each has contributed to the activities of the Foundation during his tenure as a governor in many ways—in seeking new members, participating in regional or annual conferences, serving on the various committees of the Board, and formulating policies. It is my pleasure to thank them for their sincere interest and effort on behalf of the Foundation and its members. I know I am voicing the opinion of all members when I express a special tribute to our retiring Past Chairman,

Stanley E. Edwards, Q.C. Mr. Edwards served first as Governor from 1973 to 1976 and then as Vice-Chairman, Chairman, and Past Chairman from 1978 to 1982 and has made an important contribution to the Foundation's governance. We are grateful for his guidance and wise counsel and for his irrepressible sense of humour that has helped to lighten even the heaviest of agendas. It is comforting to know that his participation in our affairs will continue as a member of the Advisory Committee of Past Chairmen.

Conclusion

The role of the Foundation as an objective, independent, nonpartisan research and educational organization has perhaps never been more important than it is today. The major income tax and sales tax changes announced in last November's federal budget, the new five-year federal-provincial fiscal arrangements that were recently introduced in Parliament, developments in provincial taxation, and mounting public expenditures provide an embarrassing richness of problems to be studied. It is worth emphasizing that the Foundation is the only organization in Canada outside of government that is engaged year in and year out in the examination and discussion of tax and other fiscal problems, which are among the most important, complex, and explosive public issues.

As retiring Chairman, I wish to express my gratitude and appreciation to my fellow officers and governors for their active support and co-operation and to the many other friends of the Foundation who

contributed their exceptional knowledge and experience in the Foundation's conferences and other activities during the past year.

I must also emphasize the marvellous co-operation provided by the staff of the Foundation, our most valuable asset, which, under the able direction of Douglas Sherbaniuk, our Director, assumed their various responsibilities with the highest degree of competence and total involvement. In one word, may I thank all those who made my task so enjoyable.

I now move, seconded by J. Claude Couture, Q.C., the following resolution -- namely, that this report of the Foundation for the fiscal year ending December 31, 1981 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.

Charles Pelletier, C.A.
Chairman
April 6, 1982

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

APRIL 6, 1982

The Foundation in 1981

Publications and Research

As the Chairman indicated in his opening remarks, it is my pleasant duty to report on the Foundation's research and publications during the past year. My responsibility today is a pleasant one, as will become apparent as the details of these programs unfold.

Of cardinal importance among the Foundation's activities is research by members of its staff and by outside experts under Foundation sponsorship. Tax research is not unlike any other form of organized investigation. It assumes that there are suitable and unsuitable ways of arranging the fiscal structure of a country and of imposing taxes and that these ways may be determined by establishing facts and considering them objectively. It involves the continuous study of tax problems in the light of changes in economic and business conditions and tax laws, by persons trained in the relevant principles, policies, laws, and practices. To be effective, such tax research must be carried on independently of either taxpayers or tax authorities.

Some of the Foundation's projects are accomplished in

libraries — that is, by reading and marshalling facts and theories from statutes, royal commission studies, speeches, university theses, official reports, and so on. Others require field work — consultation with practitioners, businessmen, officials at all levels of government, and members of university faculties. But whatever the procedure, the aim is to find out everything possible about the problem and to present those findings in a clear and impartial way.

As for our publications program, it is perhaps trite to say that 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. It will be of interest to our members to know that our publications are now going to over forty foreign countries and that our mailing list exceeds 10,200 persons.

Let me now be more specific.

The Canadian Tax Journal is perhaps the best known of our publications and is widely read and frequently quoted. Its contents include not only articles and essays on a wide variety of subjects in the fields of taxation and public expenditure, but also eight features, which have established themselves as essential reading for all who are interested in the respective subjects they deal with. We presently have under consideration two new features, which may be introduced later this year.

The 1981-82 edition of The National Finances, which came off the press last week, is the twenty-eighth consecutive issue of the Foundation's annual analysis of the federal government's revenues and expenditures. Our biennial companion piece, Provincial and Municipal Finances, which analyses 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 are perhaps taken for granted by members, they hold a unique place in Canadian public finance and are the product of hundreds of man hours of labour by the staff.

Three new issues were added to our series of Tax Papers over the past year. A revised edition of Gerard V. LaForest's The Allocation of Taxing Power Under the Canadian Constitution focusses on the role the courts have played in the development and definition of taxing powers in Canada. A welcome addition to the scanty Canadian literature on the process of decision making in tax policy is The Revenue Budget Process of the Government of Canada: Description, Appraisal, and Proposals by Douglas G. Hartle, which was mailed to members a few days ago. Curiously, despite its crucial importance, the revenue budget process has been largely unexplored territory. The purpose of this volume is to provide a description and analysis of this aspect of government activity. The study is based largely on interviews with

and comments by former government officials and other knowledgeable individuals.

Also published last week was Tax Policy Options in the 1980s, the report of the proceedings of a special conference held last March. The twelve papers and discussants' comments highlight deficiencies in existing tax policy and outline and evaluate options for reform of the tax system.

Other publications distributed to members over the past year include the report of the proceedings of the 1981 Corporate Management Tax Conference and the report of the proceedings of the 1980 Annual Conference.

Our research and publications program for 1982 will be the heaviest by far in the Foundation's history.

By the end of April, we expect to publish 1981 Tax Developments, which is a compilation of tax developments in Canada as reported in the Journal feature, Checklist.

The report of the proceedings of the 1981 Annual Conference is ahead of schedule and will likely be published in May.

As members are aware, the numerous and varied publications of the Foundation contain much that is of permanent value to all who are interested in taxation and public finance. To make this extensive literature readily accessible to readers, two consolidated

indexes have been published, the first covering the period 1945-1971 and the second 1972-1977. You will be pleased to learn that we expect to publish later this year the third volume, covering the years 1978-1980. Thereafter, our intention is to publish annual supplements and consolidate them in 1985.

The vexing question of the meaning of "cost" in Canadian income taxation is the subject of a recently completed study by Professor D. Keith McNair, FCA. He is concerned with the meaning of cost in various contexts (for example, inventory valuation, capital gains, and capital cost allowance). We look to publication before summer.

A project of great interest to Foundation members is a major study of taxation of and planning for private corporations and their shareholders. Several proposals in the November 12, 1981 budget are relevant to this study and until legislation incorporating these changes is introduced, the co-authors, Howard J. Kellough and Peter E. McQuillan, FCA, cannot proceed to completion.

Several proposals in the budget are also relevant to Professor Brian J. Arnold's study, "Timing of Income and Deductions for Tax Purposes." The study would soon be out of date if it did not take into account these impending changes. Accordingly, completion awaits the introduction of the legislation incorporating the proposals.

Despite the emphasis placed by many persons on the

importance of increasing research and development in Canada, there have been no careful studies of the R & D incentives now provided through the tax system. Professor D. G. McFetridge recently completed a draft of a study for the Foundation that compares R & D tax incentives in Canada with those provided in major industrial countries, small developed countries, and some less-developed countries.

In 1979 the Foundation published a monograph on tax expenditures in the Canadian federal income tax system that was prepared by Professor Roger S. Smith, with the assistance of David Perry, a Research Associate at the Foundation. Professor Smith, again with Mr. Perry's assistance, has undertaken another project in this field, a study of Canadian tax expenditures from an international perspective. His work will be incorporated into a larger study that compares tax expenditures in several countries. The editors are Professor Stanley Surrey of the Law School of Harvard University and Professor Paul McDaniel of the Boston College Law School.

J. Harvey Perry will soon complete a short monograph, Background of Current Fiscal Problems, which is intended to provide in one place background information that will assist readers in considering current fiscal problems, including revenue sharing, the welfare state, tax reform, the natural resources struggle, and the energy crisis.

Mr. Perry will turn his hand to the preparation of a fourth edition of his well-known book, Taxation in Canada, after his Background study has been published.

Professor Donald J. Brean has made good progress with his study, "Issues in International Taxation: The Canadian Perspective." The study investigates the national implications, for Canada, of the international tax environment. The focus is on macroeconomic factors such as investment, growth, composition of ownership, balance of payments, and tax revenue. There will also be some discussion of how international tax arrangements affect different sectors in different ways (for example, the resource sector versus the manufacturing sector, or the goods markets versus financial markets). The research will explore the taxation of Canadian direct and portfolio investments abroad, foreign investment in Canada, personal income of Canadians abroad and foreigners in Canada, and related matters.

Professor Jonathan R. Kesselman is proceeding on schedule with his study, "Financing Canadian Unemployment Insurance: A Critical Assessment." In terms of total expenditures, the unemployment insurance program ranks as the second largest program operated by the federal government after Old Age Security. In addition to its magnitude, the UI program is further distinguished by special financing arrangements, which have never received the careful examination they warrant. Professor Kesselman's study will attempt to fill many of the gaps in a rational assessment of financing provisions for the UI program.

Provincial retail sales taxes are the subject of a study underway by Professor A. J. Robinson. We look to completion of this project early next year.

Professor James A. Johnson's study of the federal sales tax is in abeyance as a result of the major changes announced in the November 12 budget. Once the federal government's decisions are known about the future of the federal sales tax, the project can be resumed.

Perhaps the most ambitious research project the Foundation has ever undertaken is a detailed study of the foreign accrual property income and foreign affiliate provisions of the Canadian income tax system. The principal researcher is Brian J. Arnold. The purpose of the study is to describe in detail the operation of the FAPI and foreign affiliate rules; to identify and describe the problems those provisions are designed to deal with; to consider the effectiveness of the provisions; to examine the response of other tax systems to the same problems; and to make recommendations, if appropriate, for changing the provisions of the Canadian tax system to deal with the problems. The Department of Finance, which is also reviewing the international tax provisions, has expressed an interest in the Foundation's project and a willingness to co-operate with us in furthering it.

Early this summer, Professors Thomas A. Wilson and

Peter Dungan will commence their study, "Evaluating Fiscal Policy in Canada." The purpose of this project is to develop a consistent framework for the analysis of fiscal policy and to analyse recent Canadian policy within that framework. Also, once the analytical framework is established, it would be a relatively straightforward matter in the future to produce analyses of the impact of budgetary policies shortly after budgets appear.

Recently, Professor John Whalley agreed to produce a short monograph evaluating the desirability and feasibility of introducing a progressive consumption tax in Canada in place of the existing income tax. This subject received close attention in a U.S. Treasury study in 1977 and in the Report of the Meade Committee in the United Kingdom in 1978. As yet, the implications of a consumption tax have not been examined in a Canadian context.

Finally, let me bring you up to date on the state of our Financing Canadian Federation project. In 1978, the Foundation undertook to prepare a series of five studies concerned with various aspects of financing Canadian federation. The project has since grown to eight studies. Four have been published and the remaining four are in various stages of completion. While they have not advanced as rapidly as we would have wished, progress is being made.

Sharing and Co-ordinating Taxing Power and Revenues in Canada: The Federal-Provincial Tax Collection Agreements. This study will provide a detailed and informed account of the origin of the

tax collection agreements of 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.

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. Professor Harry Kitchen has completed the first draft of a substantial part of this study and during the summer will travel to various cities to gather data not otherwise available. He looks to completion early in 1983.

The Financing of Canadian Federation. This study is a thorough revision and updating by David Perry of the Foundation's classic 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.

Federal Finance -- An International Perspective. This project involves the preparation of several brief studies comparing relevant aspects of the fiscal experience of different federal countries -- the United States, West Germany, Australia, and Switzerland. There appears to be little knowledge in Canada of exactly how these different systems function, and an initial consideration of them suggests that some aspects of the experience of each of these countries may be relevant to Canada. Professor Richard M. Bird is the organizer of this project.

Staff

Since the last Annual Meeting there have been several changes of personnel.

I regret to report that John Buckell, the Treasurer, was obliged by reason of serious illness to relinquish his duties in January. He came to the Foundation in April 1978 and assumed responsibility for the management of our finances and membership affairs. He was diligent in his work and helpful to his colleagues and will be missed by them. We are currently seeking a replacement for him.

Vera Nekrasiewicz, secretary to the research staff, left the Foundation last August. Her place has been taken by Karin Entwistle, who had served on a part-time basis on a number of occasions in assisting with conference administration. When an opening arose, we were pleased to have her join us.

Mary Alice Neal came to the Foundation last month to serve on a part-time basis as assistant to the Editor. She is a qualified law librarian and, in addition to other duties, is taking on-the-job training to master the art of indexing.

Other members of the staff are by now familiar figures to many of our members. Our experienced and talented research team, David Perry, Millie Goodman, and Mary Gurney, have had a busy and productive year in contributing in many ways to our publications.

Laurel Schwartz carries the important responsibility of

editing and, increasingly, supervising the editing of a growing volume of articles, conference papers, and studies, and also of attending to their production with our printers.

An indispensable aid to tax research is, of course, the library. Marjorie Robinson, our Librarian, and Ron MacLeod, our Assistant Librarian, maintain our growing collection of tax and public finance materials which, I believe, is the most extensive in Canada. They assist the research staff and meet numerous requests from Foundation members, university students, and others who use our facilities with increasing frequency.

Pat Hillmer looks after the multitude of matters involved in the administration of our extensive conference program, with the capable assistance of Marg Brown. Both are now familiar figures at the registration desk at our various conferences and make friends for us across the country.

Burt Joyner not only assists the Treasurer but devotes increasing attention to our rapidly growing publications department.

The work of the secretarial staff is indispensable to the success of our activities, and I am pleased to acknowledge the unfailing co-operation and assistance that I have received throughout the year from them. Thora Harris has been my secretary for ten years this month and has always been of the greatest assistance to me. Anne McAlonen is secretary to the Treasurer and includes among her duties

administration of corporate memberships. Ruth Cornish and Marg Goldup have responsibility for looking after the records for our rapidly growing individual memberships. Pat Hunt fills the dual role of receptionist and secretary so competently. Jane Peeling provides secretarial services to both the Foundation's Secretary and the Editor, and is helping at the registration desk at some of the conferences. I welcome the opportunity afforded me at the Annual Meeting to express publicly my thanks to all of them for the co-operation and support that they have invariably extended to me. The Foundation and its members are very well served indeed by my colleagues.

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

D. J. Sherbaniuk
Director
April 6, 1982

