

VC
HRM

Thirty-seventh Annual Report

For the year ending December 31, 1982

MCGILL UNIVERSITY LIBRARIES

JUL 20 1983

SERIALS DEPARTMENT

HOWARD ROSS LIBRARY
OF MANAGEMENT

JUL 21 1983

MCGILL UNIVERSITY



Canadian Tax Foundation

L'Association Canadienne
d'Études Fiscales

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

Thirty - seventh Annual Report

For the year ending

December 31, 1982

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 19, 1983

D. G. Barry	Saint John
J. N. Beal, C.A.	Toronto
C. A. Blanchard	Quebec
W. J. Buckwold, C.A.	Winnipeg
* J. C. Couture, Q.C.	Montreal
G. D. N. Covert, Q.C.	Halifax
J. H. Currie	Calgary
D. W. Davies, FCA	Toronto
R. G. Dittmer, C.A.	Saskatoon
H. R. Germain, C.A.	Montreal
* H. L. Doane, FCA	Halifax
W. R. Fitzpatrick, C.A.	Saint John
François Gagnon, C.A.	Ste-Foy
* J. S. Hausman	Toronto
G. H. Heximer, C.A.	Edmonton
H. Kellough	Vancouver
L. A. Kyle, Q.C.	Regina
M. A. Leduc	Montreal
* André Lesage, C.A.	Montreal
B. G. Levine, C.A.	Montreal
P. E. McQuillan, FCA	Toronto
D. C. Nathanson	Toronto
* J. S. Palmer, Q.C.	Calgary
M. A. Regnier, Q.C.	Montreal
* G. W. Riehl, FCA	Toronto
D. W. Robertson, C.A.	Victoria
A. R. A. Scace, Q.C.	Toronto
R. G. S. Shead	Winnipeg
D. W. Smith	Toronto
* G. A. Stekl, C.A.	Vancouver
E. W. Stratton, C.A.	St. John's
D. G. Sweet, FCA	Vancouver
J. E. G. Vavasour	St. John's
D. E. Wikant, FCA	Calgary

* Executive Committee of the Board of Governors

OFFICERS

Gordon W. Riehl, FCA Chairman
J. S. Palmer, Q.C. Vice-Chairman and
Chairman of the Executive Committee
H. L. Doane, FCA Vice-Chairman
J. Claude Couture, Q.C. Past Chairman
Douglas J. Sherbaniuk Director
Arthur W. Berry, C.A. Treasurer
Patricia A. Hillmer, Secretary

PAST CHAIMEN

Molyneaux L. Gordon, K.C. (deceased)
Gordon R. Munnoch, K.C. (deceased)
J. Grant Glassco, F.C.A. (deceased)
W. G. H. Jephcott, F.C.A. (deceased)
Claude S. Richardson, Q.C. (deceased)
Kenneth Lem. Carter, F.C.A. (deceased)
* Lazarus Phillips, Q.C., Montreal
* Thomas A.M. 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. (deceased)
* 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
* Charles Pelletier, C.A., Quebec

* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 1982

OPERATING FUND	ASSETS	<i>1982</i>	<i>1981</i>
CURRENT ASSETS			
Cash	\$ 77,811	\$ 25,917	
Investments (note 2)	1,381,483	1,147,788	
Accrued interest and accounts receivable	96,040	32,936	
	<u>1,555,334</u>	<u>1,206,641</u>	
FIXED ASSETS			
Furniture and office equipment	102,399	98,885	
Leasehold improvements	90,400	90,400	
	<u>192,799</u>	<u>189,285</u>	
Accumulated depreciation and amortization	55,317	36,128	
	<u>137,482</u>	<u>153,157</u>	
RESEARCH ENDOWMENT FUNDS (notes 2 and 3)			
Investments	1,511,305	1,500,000	
	<u>1,511,305</u>	<u>1,500,000</u>	
	<u><u>\$3,204,121</u></u>	<u><u>\$2,859,798</u></u>	
LIABILITIES			
OPERATING FUND			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	\$ 356,202	\$ 253,638	
Deferred revenue — subscriptions	349,003	320,106	
— conference registrations	—	8,630	
	<u>705,205</u>	<u>582,374</u>	
BALANCE OF FUNDS			
OPERATING FUND	<u>987,611</u>	<u>777,424</u>	
RESEARCH ENDOWMENT FUNDS (note 3)			
Board-designated	1,511,035	1,500,000	
Donor-designated	270	—	
	<u>1,511,305</u>	<u>1,500,000</u>	
	<u><u>\$3,204,121</u></u>	<u><u>\$2,859,798</u></u>	

Approved on behalf of the Board of Governors:

J. C. Couture
Chairman

G. W. Riehl
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENSE YEAR ENDED DECEMBER 31, 1982

	1982	1981
REVENUE		
Subscriptions:		
Individual	\$ 522,062	\$ 434,954
Corporate	<u>207,319</u>	<u>195,508</u>
	729,381	630,462
Conference registrations	967,208	1,096,719
Investment income	<u>167,455</u>	<u>384,460</u>
	1,864,044	2,111,641
EXPENSE		
Conference direct expenses	573,034	599,942
Research salaries	285,464	272,701
Rent	222,491	211,950
Administration salaries	159,186	129,522
Depreciation and amortization expense	19,189	18,928
Employee benefits	30,495	34,856
General office expense	25,505	16,845
Library books and periodicals	34,809	27,881
Office printing, stationery and supplies	19,511	26,517
Postage	22,340	47,381
Professional fees	25,992	11,129
Publications	177,966	178,243
Research consulting	3,120	3,181
Special studies	—	78,036
Telephone and telegraph	21,338	19,113
Travelling — staff	3,006	26,589
Travelling — board	30,411	—
Write down of investments to market value	—	26,712
	<u>1,653,857</u>	<u>1,729,526</u>
EXCESS OF REVENUE OVER EXPENSE FOR THE YEAR	<u><u>\$ 210,187</u></u>	<u><u>\$ 382,115</u></u>

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE

YEAR ENDED DECEMBER 31, 1982

BOARD-DESIGNATED FUND		
REVENUE		
Investment income	\$ 220,527	
EXPENSES		
Authors' fees	108,310	
Editing and review of manuscripts	15,250	
Postage and handling	19,200	
Printing	59,293	
Typesetting	7,439	
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u><u>\$ 11,035</u></u>	
DONOR-DESIGNATED FUND		
REVENUE		
Donations	\$ 250	
Investment income	<u>20</u>	
EXCESS OF REVENUE FOR THE YEAR	<u><u>\$ 270</u></u>	

These funds were established at December 31, 1981 and accordingly had neither revenue nor expenditure in 1981.

CANADIAN TAX FOUNDATION

STATEMENT OF BALANCE OF FUNDS

YEAR ENDED DECEMBER 31, 1982

OPERATING FUND	1982	1981
Balance at beginning of year	\$ 777,424	\$ 1,895,309
Excess of revenue over expense for the year	210,187	382,115
	987,611	2,277,424
Transfer to board-designated research endowment fund (note 3)	—	1,500,000
Balance at end of year	<u>\$ 987,611</u>	<u>\$ 777,424</u>
 RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance beginning of year	\$ 1,500,000	\$ —
Transfer from operating fund (note 3)	—	1,500,000
Excess of revenue over expenditure for the year	11,035	—
Balance at end of year	<u>\$ 1,511,035</u>	<u>\$ 1,500,000</u>
DONOR-DESIGNATED		
Balance beginning of year	\$ —	\$ —
Excess of revenue over expenditure for the year	270	—
Balance at end of year	<u>\$ 270</u>	<u>\$ —</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1982

WORKING CAPITAL DERIVED FROM	1982	1981
Operations		
Excess of operating fund revenue over expense for the year	\$ 210,187	\$ 382,115
Add back depreciation and amortization, not requiring a current outlay of funds	19,189	18,928
	<u>229,376</u>	<u>401,043</u>
 WORKING CAPITAL APPLIED TO		
Transfer to board-designated research endowment fund (note 3)	—	1,500,000
Additions to fixed assets	<u>3,514</u>	<u>26,176</u>
	<u>3,514</u>	<u>1,526,176</u>
INCREASE (DECREASE) IN WORKING CAPITAL	225,862	(1,125,133)
WORKING CAPITAL — beginning of year	624,267	1,749,400
— end of year	<u>\$ 850,129</u>	<u>\$ 624,267</u>
 COMPONENTS OF WORKING CAPITAL		
Current assets	\$ 1,555,334	\$ 1,206,641
Current liabilities	705,205	582,374
	<u>\$ 850,129</u>	<u>\$ 624,267</u>

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1982

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 recorded 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

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

2. INVESTMENTS

A summary of investments is as follows:

Operating Fund

	1982	1981
Term deposits and guaranteed investment certificates at cost maturing within twelve months	\$1,258,695	\$1,025,000
Other investments at market	<u>122,788</u>	<u>122,788</u>
	<u>\$1,381,483</u>	<u>\$1,147,788</u>

Research Endowment Fund

Term deposits at cost maturing within twelve months	<u>\$1,511,305</u>	<u>\$1,500,000</u>
-----------------------------------------------------	--------------------	--------------------

3. RESEARCH ENDOWMENT FUND

On December 31, 1981 the Governors appropriated an amount of \$1,500,000 out of the Foundation's operating funds as a Board-designated Research Endowment Fund. The income from this fund is to be used to finance studies and research projects concerning tax matters in Canada. For 1982, expenditures for such studies and research projects are allocated to the Board-designated Research Endowment Fund; in 1981 these expenses were allocated to the operating fund and included in postage, publications and special studies expense.

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, 1982 the Foundation has commitments of approximately \$711,000 for the future production of various publications and tax papers.

6. PENSION COSTS

The Foundation has a trustee, contributory pension plan covering substantially all of its salaried employees. The total expense for 1982 was \$10,810 ((\$16,065 for 1981)).

AUDITORS' REPORT

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

We have examined the statement of financial position of the Canadian Tax Foundation/l'Association Canadienne d'Études Fiscales as at December 31, 1982 and the statements of operating fund revenue and expense, research endowment funds revenue and expenditure, balance of funds, 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, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
February 4, 1983

CLARKE, HENNING & CO.
CHARTERED ACCOUNTANTS

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

APRIL 19, 1983

The Annual Meeting affords the Chairman an opportunity to report on certain aspects of the Foundation's activities over the past year. In this thirty-seventh annual review, I am pleased to be able to record significant accomplishments in virtually all of our affairs. To catalogue them briefly, the research and publications programs expanded, our conferences continued to attract substantial numbers of registrants, several recommendations in a report on opening up the budget process that was prepared by a committee organized under the auspices of the Foundation were adopted by the government, and financially, the year ended with a substantial balance on the credit side of the accounts despite disappointing results in our individual membership affairs.

I shall provide details on some of these events and the Director will deal with others in his report.

Membership and Finance

Since its inception in 1945, the Foundation has been financed principally by subscriptions from its corporate and individual members. Only in recent years have our conferences and investments contributed appreciable amounts to revenues. At December 31, there were over 9,000 individual members, although I regret to say, we had a net decrease of 207 for the year compared with an increase of 664 in 1981. The explanation for the decline is, of course, the deep and prolonged recession that has had so severe an impact on all sectors of the economy. We remain confident that our membership will grow apace upon a return of buoyancy to the economy.

The corporate subscribers' picture is brighter. At the end of the year, there were 437 corporate members, a net increase of 10 over the previous year. An additional 200 companies support the Foundation through two associations, so that total corporate memberships now number about 637.

To assist us in our efforts to attract new members,

the President of the Canadian Bar Association, Mr. L. Yves Fortier, Q.C., wrote last fall to members of the Association who practice in the tax and corporate and commercial fields, commanding the work of the Foundation and encouraging support for it. To date, 85 individual memberships and 2 corporate memberships have resulted from his letter. We warmly appreciate Mr. Fortier's efforts on our behalf.

The full details of the Foundation's financial position for 1982 are set out in the audited financial statements that accompanied the notice of this meeting. You will have noted from the statements of revenue and expense and assets and liabilities of the operating fund and the research endowment funds that the results of the year, on the whole, were quite satisfactory. On the income side, subscription revenues increased by \$100,000 to a total of \$730,000. The gain was attributable primarily to a modest increase in the individual membership fee from \$60 to \$70 and in the minimum corporate subscription from \$250 to \$275. Also, 53 corporate members voluntarily increased their contributions to the Foundation by over \$6,000. It is a pleasant duty to express the Foundation's appreciation for these contributions to the resources on which our work depends. Investment income amounted to \$387,000, about the same as in 1981. Our conference activities, particularly the Annual Conference, generated net revenue of \$394,000, a decline from the previous year of over \$100,000. Reduced attendance at some of our regional conferences, which was attributable, of course, to the recession, accounts for the decrease.

Expenditures rose by \$134,000, the main increases being for author's fees and the publication and distribution costs of commissioned research projects. The net result of the year's activities was a favourable balance of \$210,000 in the operating fund and \$11,000 in the research endowment funds, compared with \$382,000 in 1981.

Indications are that for the current year there will be a deficit, the first since 1975. For one thing, a number of studies that have been in preparation for up to three years will be completed this year and add substantially to our expenses for publication and distribution. For another, several new research projects have been commissioned. Also, we shall incur appreciable expense for hardware, software, and a consultant's services in automating certain of our operations, including membership records, conference administration, and our accounting system. In future years, as finances permit, it is our intention to apply computer systems to some of the library's functions. It seems prudent to use our resources to achieve economies and efficiencies in these various operations.

The automated facilities will doubtless assist us in implementing a new policy for selective distribution of Foundation publi-

cations that was recently approved by the governors as a cost-cutting measure. Our growing publications program has made us painfully aware of the constantly escalating costs of printing and distributing the results of our conferences and research. Although it has long been the policy of the Foundation to distribute its publications at the time of issue to all members without charge, we have been given to understand that some publications are of little or no interest to some members. The purpose of our new distribution policy is to try to obviate the needless cost incurred in printing, handling, and mailing books to members who do not want them, but at the same time to ensure that members receive copies of all publications in which they are interested. The details of how best to organize a selective distribution system to achieve these dual objectives are still being worked out. Let me emphasize that, in the future as in the past, members may receive copies of all publications at the time of issue without charge if they so desire.

Our current finances are in reasonably good condition, although, of course, there is always room for improvement in such matters. The Executive Committee and the Finance and Audit Committee endeavour to budget conservatively and yet avoid the kind of restraint that might depreciate the quality of the Foundation's operations or jeopardize its long-term future. In today's economic environment, funding does not come easily. It requires considerable planning and patience as well as a sense of timing and a little bit of luck. Much thought and effort are devoted to this vital matter, for a strong financial base is necessary if the Foundation is to continue to function as a leading centre of research and education in the fields of taxation and public finance.

Conferences

Conferences have come to be regarded as a major phase of the Foundation's work, constituting as they do a focal point for joint discussions and objective studies of tax and fiscal problems by lawyers, accountants, business people, academics, and government officials.

At the Annual Conference held in Toronto in November, several sessions were concerned with the numerous and important amendments to the Income Tax Act that were included in the draft Bill that was tabled in June. The Workshop Sessions, which have proven to be so popular over the years, were devoted to discussion of case studies dealing with the tax treatment of small business. We were privileged to have as guest of honour the Honourable Marc Lalonde, Minister of Finance, whose speech at the banquet was a highlight of the conference.

The regional conference program, which encourages discussion of local as well as national fiscal issues, was an active one. In January, the Prairie Provinces Tax Conference was held in Edmonton, and our French language conference, *Journées d'études fiscales*, which had been postponed from the fall of 1981 by reason of a postal strike, was held in Montreal. The British Columbia Tax Conference, originally scheduled for May, was postponed to June and again to September to permit the inclusion in the program of the draft income tax amendments. A second *Journées d'études fiscales* was held in September, as was the Atlantic Provinces Tax Conference, which was co-sponsored by Dalhousie University.

The theme of the Corporate Management Tax Conference, the nineteenth in this series, was income tax enforcement, compliance, and administration.

Two special conferences dealt with the federal sales tax and the taxation of the petroleum industry. In June, in Toronto, two days were devoted to a careful examination and analysis of the draft federal sales tax legislation that was introduced last spring. Recent developments in the tax treatment of the petroleum industry were the subject matter of a conference in Calgary in October.

The conference program for 1983 is already off the mark. The ninth Prairie Provinces Tax Conference was held in Winnipeg in February and was devoted primarily to a discussion of the income tax Bill that was tabled in Parliament in December. The Corporate Management Tax Conference, to be held in Toronto in June, will have as its theme, "Income Tax Aspects of Acquiring, Financing, Holding and Disposing of Real Estate." In September, the British Columbia Tax Conference will be held in Vancouver, the *Journées d'études fiscales* in Montreal, and the Atlantic Provinces Tax Conference in Halifax. Since the pace of change in the tax treatment of the petroleum industry seems to continue unabated, a conference on that subject for the third consecutive year will be held in Calgary in October.

The Annual Conference is scheduled for Montreal in November. Any suggestions of topics for discussion will be gratefully received.

Tax Legislation

A matter of long-standing interest and concern to the Foundation is the budget process, particularly the secrecy that has traditionally surrounded the development of tax measures. In response to a request from the Minister of Finance early last year, a committee established by the Foundation prepared a report, On Opening Up the Budget Process,

which makes a number of recommendations for reducing the constraints imposed by budget secrecy and fostering much greater input from the private sector in the formulation of tax changes. Several of the recommendations were adopted in the Green Paper tabled by the Minister of Finance on April 20, 1982, The Budget Process: A Paper on Budget Secrecy and Proposals for Broader Consultation, which refers extensively to the committee's report. The report and the Green Paper are published in the March-April 1982 issue of the Canadian Tax Journal.

It is gratifying that three of the committee's recommendations have been implemented by the Department of Finance in recent months -- the use of advisory committees from the private sector to consider important tax changes (the restricted interest deduction, corporate reorganizations, inflation-protected investments, and the possible shift of the federal sales tax to the wholesale level), the publication of consultative documents outlining proposed amendments and inviting comments from the public, and the publication of a detailed explanatory memorandum to accompany draft income tax amendments. In his address at the Annual Conference, Mr. Lalonde affirmed his "strong commitment" to the consultative process.

He also pointed out that the complexity of the Income Tax Act has become a matter of concern, noting that "one area in which there is a compelling need for simplification is that which relates to small business." He requested the Foundation to provide assistance in dealing with this important issue. We, of course, welcome the opportunity to be of service. The Foundation has organized a committee to consider how the provisions relating to the tax treatment of small business could be simplified. Members of the committee are Gordon W. Riehl, FCA, Robert F. Lindsay, Q.C., Robert D. Brown, FCA, Stanley E. Edwards, Q.C., Edward C. Stewart, C.A., Douglas J. Sherbaniuk, and myself.

With the cooperation and participation of the Department of Finance, the committee is organizing a national symposium on simplification of the small business provisions, to be held on July 11-12-13 at the Royal York Hotel in Toronto. The symposium will discuss the meaning and causes of complexity, examine the problems it poses for tax compliance and tax administration, closely analyze the statutory provisions to determine the policies underlying them, compare the treatment of small business under the tax laws of a number of foreign countries, and consider ways and means to simplify the provisions in the Canadian law and still maintain the level of relief provided by the current provisions.

Papers dealing with these various subjects will be distributed to registrants well in advance of the symposium and will be commented on by discussants. Questions and comments from the audience will be elicited.

It is hoped that all who have an interest in the taxation of small business in Canada will be in attendance.

Other Matters

Students enrolled in the International Tax Program at Harvard University paid their annual visit to the Foundation in May. In addition to learning about the organization and operation of the Foundation, they participated in discussions of tax changes in developing countries with Professor Richard M. Bird, our economics consultant, and sales tax and property tax with representatives of the Ontario Department of Revenue. Most of the students are officials in revenue departments of developing countries.

In October, Dr. Albert Radler, Professor of International Business Taxation at the University of Hamburg, spent a day at the Foundation with over 20 of his students, who are studying taxation and public finance at that university.

Changes in the Board of Governors

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

F. W. Chenhall, C.A., Halifax
F. W. Davis, C.A., Moncton
R. F. Lindsay, Q.C., Toronto
Jean Monet, Q.C., Montreal
Charles Pelletier, C.A., Quebec
Hans Pintea, C.A., Winnipeg
D. J. Warr, C.A., St. John's

I welcome this opportunity to express to them on your behalf sincere thanks for their interest, helpful cooperation, and strong support of the Foundation during their terms of office. We are indebted to all of them for having contributed in so many ways in advancing the interest of the Foundation, but I should like to express a special word of appreciation to Charles Pelletier, who retires as Past Chairman. During his seven years on the Board, he made an important contribution to the Foundation's governance and we are grateful for his guidance and wise counsel. You will be pleased to know that his collaboration in our work will continue in the role of a member of the Advisory Committee of Past Chairmen.

In accordance with the by-laws, the following gentlemen have been nominated by the Presidents of the Canadian Bar Association

and the Canadian Institute of Chartered Accountants to fill the vacancies occasioned by the above retirements:

W. J. Buckwold, C.A., Winnipeg
H. L. Doane, FCA, Halifax
W. R. Fitzpatrick, C.A., Saint John
François Gagnon, C.A., Ste-Foy
M. A. Regnier, Q.C., Montreal
A. R. A. Scace, Q.C., Toronto
E. W. Stratton, C.A., St. John's

Mr. Doane is returning to the Board after an absence of six years. As you know, he is currently President of the Canadian Institute of Chartered Accountants. Lest it appear that he nominated himself, I want to assure you that the inclusion of his name in the list of nominees is in response to a warm invitation from the Foundation.

I report with sadness the death of Robert B. Dale-Harris, FCA, a Past Chairman of the Board of Governors and senior partner in Coopers & Lybrand, Toronto. He was a long-time friend of the Foundation and made an important contribution to our work. He will be remembered with gratitude and affection.

Conclusion

From its inception, 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 field of taxation and public expenditures. Over a span of nearly four decades, this central concern has lost none of its timeliness. We think the Foundation has achieved a substantial measure of success in its endeavours, for as the Honourable Marc Lalonde, Minister of Finance, generously acknowledged in his address at the Annual Conference banquet last November:

I recognize, as I am sure my predecessors did, that the Foundation plays a unique and important role in the operation of the tax system. This past year in particular, the Canadian Tax Foundation has provided very timely views on the issue of the budget process through its many conferences on tax issues. I wish to congratulate the Foundation and its Chairman on its past achievements and encourage it to aggressively continue its work and analysis of tax issues in the future.

I should like to express my appreciation to my fellow officers and governors for their warm support and cooperation during

my term as Chairman. I know that the new officers and governors will meet the challenge of the coming year, and I wish them every success in their endeavours.

I now move, seconded by Gordon W. Riehl, FCA, the following resolution — namely, that this report of the Foundation for the fiscal year ended on December 31, 1982 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.

J. Claude Couture, Q.C.
Chairman
April 19, 1983

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

APRIL 19, 1983

The Chairman has referred to our expanded research and publications program. In this report, I shall make a few general comments about each of these important activities and then outline briefly the studies that were completed or underway during the past year so as to provide you with a composite snapshot that depicts the broad range of interests encompassed in our research and publications.

Research

One of the purposes of the Foundation's research program is to contribute to the process of citizen education and enlarge public understanding about tax and government expenditures. Through the pages of the Canadian Tax Journal, conference reports, and monographs on various subjects, the Foundation has brought knowledge to the aid of the Canadian people to foster better understanding of the ways in which revenues are raised and expended by all three levels of government.

Another objective of our research program is to help the shaping of informed policy in the development of tax laws and expenditure programs. Is there any indication that the work of the Foundation has been effective in this respect? It is difficult to respond positively with assurance, having regard to the shrouded paternity of ideas in any field of endeavour. The path along which an article, a paper, or a monograph may affect decision-making is so tortuous that the trail usually becomes difficult or impossible to follow. But in at least one instance, the causal nexus between a study and a government decision is direct and unambiguous -- the report of the Foundation's committee on opening up the budget process and lowering the veil of secrecy that has traditionally enveloped the formulation of tax laws. As the Chairman has noted, several recommendations in the report have been implemented over the past year.

While research is undertaken, of course, by the Foundation staff, many projects are commissioned on a contract basis to scholars from other institutions and to practitioners. By this means, the Foundation is able to draw on a wide range of talent.

Projects undertaken by the Foundation may originate in

many ways. The staff continually reviews emerging problems deserving investigation. Also, discussions with practitioners, government officials, representatives of the business and academic communities, and others are helpful in identifying issues for study. Over the years, it has been our experience that the most serious single problem in the realm of research has been the availability of personnel. In particular, it has been difficult to enlist the services of experienced tax professionals, for whom it is often virtually impossible to devote the substantial blocks of time necessary for a major project.

In concluding these remarks on research, let me remind you that the Foundation itself does not take positions on policy issues.

Publication

The publication of the results of our research, conferences, and other activities has been central to the Foundation's efforts since its beginning. The wide variety of publications we issue serves as a channel of communication not only to our membership, but also to government officials, educators and students, and others concerned with taxation and public spending.

The dissemination of the Foundation's findings is encouraged by news releases announcing publications, by distribution of review copies, and by a generous policy on use of material by other authors and by the press. Each year, we received many requests for permission to reprint or excerpt from Foundation studies.

To ensure that our publication standards are met, articles submitted for the Journal and manuscripts for Tax Papers are reviewed by one or more outside referees in private practice, universities, and the business community. They contribute to quality control through advice, criticism, and other aids to authors.

That the Foundation is a major Canadian publisher is apparent from our output in 1982. We published a total of nearly 6,000 pages, or 3 million words, and distributed 166,525 copies of 11 titles that went to all members and 6 reports of the proceedings of regional conferences that were distributed to registrants.

The centrepiece of our publications is, of course, the bimonthly Canadian Tax Journal, which is now in its thirty-first year. Over the years, it has grown both in scope and size. Its contents include not only articles on a wide variety of subjects in the field 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. Ten years ago the Journal ran to nearly 600 pages; five years ago, to about 800 pages; and in 1982, to nearly 1,000 pages. Its stature in the tax community is

reflected in a recent letter from a lawyer with a Montreal chartered accounting firm, who described it as "the tax practitioner's 'bible' in this country." I might add that it is also widely cited abroad. Readers may have noticed a number of changes in the appearance and format of the first issue of 1983. There have been modifications in the design and typeface used, which we hope will be found to be aesthetically pleasing. Also, we have substituted one column per page in lieu of the previous two columns to enhance readability, increase the number of words per page, and obviate a problem that arose when the six issues of the Journal were bound.

Other regular Foundation publications that appeared during the year under review were the twenty-eighth edition of The National Finances, the only publication in Canada that attempts to analyze the entire revenue and expenditure program of the federal government each year, and two issues in the Tax Memo series; Provincial Finances, 1982, which analyzes the revenues and expenditures of provincial governments, and 1981 Tax Developments, which is a compilation of tax developments in Canada as reported in the Journal feature, "Checklist." The purpose of the latter is to bring together in one place for convenient reference information on federal and provincial budgets, amendments to regulations, and nonbudgetary tax changes.

To make the wealth of information contained in the Foundation's extensive literature readily accessible and therefore more useful, two consolidated indexes have been published, the first covering the period 1945 - 1971 and the second 1972 - 1977. They include not only a detailed breakdown of subject matter but also an author index and an index of cases. Last year saw the publication of an index supplement covering the years 1978 - 1980.

Four new issues were added to our series of Tax Papers. Tax Policy Options in the 1980s is a report of the proceedings of a special conference held in March 1981. Edited by Wayne Thirsk and John Whalley, the 12 papers and discussants' comments highlight deficiencies in existing tax policy and outline and evaluate options for the reform of the tax system.

D. Keith McNair's The Meaning of Cost in Canadian Income Tax deals with a concept of fundamental importance in income taxation. The term "cost" is not defined in the Income Tax Act, although it appears frequently in the statute and regulations and is a major element in generally accepted accounting principles, which are applicable in the computation of "profit" unless they are inconsistent with a rule of tax law. Professor McNair's book satisfies a longstanding need for a careful and thorough review and analysis of the relevant provisions, judicial decisions, and other material concerned with the meaning and significance of "cost" for tax purposes.

The unveiling of the federal budget this evening makes particularly topical D.G. Hartle's book, The Revenue Budget Process of the Government of Canada: Description, Appraisal, and Proposals. Despite its crucial importance, the revenue budget process has been largely unexplored territory. It is paradoxical that a process which is so public in its effect has been so private in its operation. The purpose of the study is to provide a description and analysis of this vitally important aspect of government activity. Although there are other studies on the subject, this volume is unique in that it is based largely on interviews with, and comments by, former government officials and other knowledgeable individuals. The author outlines and critically appraises proposals for reform of the budget process and concludes by offering his own suggestions for improvement.

Those interested in taxation and public expenditures may sometimes feel that they are without compass or rudder in trying to chart a course through the myriad tax and expenditure developments at all levels of government. They now have an aid to navigation in Background of Current Fiscal Problems by J. Harvey Perry. It provides an historical summary and current review of widely diverse tax and expenditure issues that occupy a position of central importance in Canadian public affairs. They are also highly controversial. The book serves to advance public understanding and sharpen public perception of these issues.

Other books distributed to members last year include the reports of the proceedings of the 1981 Corporate Management Tax Conference and the 1981 Annual Conference.

The publications program for 1983 will be our heaviest ever. Two books came off the press yesterday and will soon be in the hands of members. They are The National Finances, 1982-83 and 1982 Tax Developments.

Early this month we issued the first Tax Paper of the current year, McFetridge and Warda, Canadian R & D Incentives: Their Adequacy and Impact. 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. This study compares R & D tax incentives in Canada with those provided in major industrial countries, small developed countries, and some less-developed countries, and comes to the conclusion that, insofar as the corporate tax system is concerned, the R & D incentives Canada offers are superior to those in all but one of the 20 countries examined (the exception is Singapore). Since the book was reviewed in the pages of the Globe and Mail two weeks ago, there has been a steady stream of requests for copies from all parts of the country. It has every indication of becoming a best seller.

Five other studies are well along and are scheduled for publication this year.

A project of great interest to Foundation members is The Taxation of and Planning for Private Corporations and Their Shareholders by Howard J. Kellough and Peter E. McQuillan, FCA. The authors carefully analyze the small business provisions of the Income Tax Act, which even to the tutored eye are excessively opaque, and provide many helpful ideas in planning corporate and shareholder affairs. The volume is likely to find a place on the desk of most practitioners.

Another study of interest to practitioners is The Timing of Receipts and Deductions for Income Tax Purposes by B. J. Arnold. The project is a comparative study of the relationship between taxation and accounting concepts, particularly in the measurement of business profits. It involves an examination of the jurisprudence, the statutory provisions, and the administrative practices in Canada, the United Kingdom, and the United States.

J. R. Kesselman's Financing Unemployment Insurance is of highly topical interest. 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. This study attempts to fill many of the gaps in a rational assessment of financing provisions for the UI program.

Undergoing final revision for publication is Issues in International Taxation: The Canadian Perspective by D. J. Brean. 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 is also 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 market versus financial markets). The author explores the taxation of Canadian direct and portfolio investments abroad, foreign investments in Canada, personal income of Canadians abroad and foreigners in Canada, and related matters.

I am glad to be able to report that another volume in the Foundation's series on Financing Canadian Federation is in press. It is Financing Canadian Municipalities by H. M. Kitchen. The purpose of the study is to provide a detailed examination of the finances of Canada's third level of government. It discusses the various ways in which local governments raise and spend money and the problems and opportunities they encounter in the process, and will constitute a major addition to the scanty literature on this subject.

The remaining three studies in this series are at various stages of completion.

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, Switzerland, and India. 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 of the Department of Economics at the University of Toronto is the organizer of this project.

Sharing and Coordinating 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.

The Financing of Canadian Federation. This study is a thorough revision and updating by David B. 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 1982.

A number of other studies are well underway.

Provincial retail sales taxes are the subject of a study by A.J. Robinson. They are a major source of revenue and warrant a thorough analysis.

Those familiar with previous editions of Taxation in Canada by J. Harvey Perry will welcome the news that he recently completed a first draft of the manuscript for the fourth edition. It is less a revision than a complete rewriting, necessitated by the massive changes in the Canadian tax system since the last edition was published in 1961.

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 interest in the Foundation's project and a willingness to cooperate with us in furthering it. It is Professor Arnold's intention to prepare articles for publication in the Journal from time to time as aspects of the study are completed.

Roger S. Smith, Dean of the Faculty of Business Administration and Commerce at the University of Alberta, with the assistance of David B. Perry, a Research Associate of the Foundation, has undertaken 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.

Three new projects will be commenced this year. Professors Robin Broaday, Neil Bruce, and Jack Mintz, all of the Department of Economics at Queen's University, will examine the influence of corporate and personal taxes on corporate markets. The study will focus on how taxes influence savings and investment in an open economy such as that of Canada.

J.A. Whalley and J.B. Davies of the Department of Economics at the University of Western Ontario will shortly commence work on a 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.

In 1980, the Foundation published Canadian Tax Policy by R.W. Broaday and H.M. Kitchen. It explains in nontechnical terms the nature of the Canadian tax system and the effects of taxation on the economy, and also analyzes the system of transfer payments made to individuals by the three levels of government. There has been a steady demand for the book, particularly by universities. The original printing was quickly sold out and, although we have reprinted the book three times, our stock is nearly depleted. The authors have agreed to prepare a revised edition before the end of the year.

Projects that are on the agenda for members of the Foundation staff include Provincial and Municipal Finances, 1983, which will analyze the revenues and expenditures of provincial and local governments. As provincial budgets are brought down, progress with this project will accelerate.

Finally, an index supplement covering Foundation publications issued in 1981 and 1982 is in preparation.

Staff

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

It is a matter of deep regret for me to record that John W. Buckell, Treasurer of the Foundation, died of cancer last May. He came to the Foundation in 1978 and was responsible for the prudent management of our finances. I am pleased to report the appointment of his successor, Arthur W. Berry, who will join us early in May. Mr. Berry is a chartered accountant and for the past 15 years has served as Secretary-Treasurer and, more recently, as Vice-President, Finance, of Ferrco Engineering Limited of Whitby, Ontario. He is highly qualified to assume the duties of Treasurer.

Last August, Jane Peeling left the secretarial staff to attend university. In the same month, we welcomed Leesa Armstrong to our ranks as secretary to the Editor and the Secretary.

The burgeoning growth in our publications has necessitated assistance in the editorial department. Mary Alice Neal, who came to the Foundation last spring to serve on a part-time basis as assistant to the Editor, joined the permanent staff in November.

A recent addition to the temporary staff is Martha Sherbanuk, who assists in the Library and provides bilingual services when needed.

It will be apparent to you from the reports you have heard today that the past year has been an extremely active one. For our many accomplishments, much of the credit must go to members of the staff, who are responsible for the quality of the day-to-day performance of the Foundation. Our research team is David Perry, Mary Gurney, and Millie Goodman, who represent an invaluable combination of talents and a wealth of experience, for which the high calibre of all their work is the most striking testimony.

Editorial matters are in the capable hands of Laurel Schwartz, who not only edits but also supervises a number of freelance editors and deals with various printers in seeing our growing output of publications through to completion.

Responsibility for the Foundation's collection of public finance materials rests with the Librarian, Marjorie Robinson, and the Assistant Librarian, Ron MacLeod. Frequent letters of appreciation attest to the cheerful, efficient, and courteous service they provide to users.

Pat Hillmer serves both as Secretary of the Foundation and as conference administrator. In the latter capacity, she is capably assisted by Marg Brown.

Burt Joyner assists with the treasury function and looks after the growing volume of sales of our publications.

The secretarial staff ably performs all the prosaic tasks without which the organization would come to a standstill: Ruth Cornish and Marg Goldup, who attend to membership affairs; Karin Entwistle, secretary to the research staff; Thora Harris, my efficient and helpful secretary; Pat Hunt, who serves both as receptionist and secretary; and Anne McAlonen, secretary to the Treasurer.

I welcome the opportunity afforded me at the Annual Meeting to express publicly my thanks to all of them for their cooperation and help. I acknowledge particularly their willing assumption of extra duties during our search for a Treasurer.

Finally, on behalf of the staff, I wish to thank our members in all parts of the country for their support, encouragement, and advice; the many speakers who contributed so much to the success of our conferences; and the Board of Governors, particularly the Executive Committee, for their active interest and leadership during the past year. May I welcome the governors who have been elected today and express the hope that their association with the Foundation will be a gratifying one.

Douglas J. Sherbaniuk
Director
April 19, 1983

