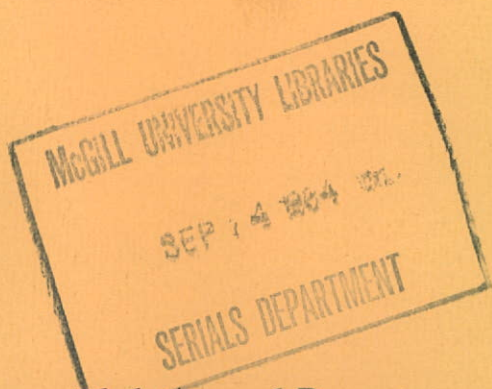


U C  
HRM



## *Thirty-eighth Annual Report*

For the year ending December 31, 1983



Canadian Tax Foundation  
L'Association Canadienne  
d'Études Fiscales

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



Thirty - eighth Annual Report

For the year ending

December 31, 1983

# CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

## THE BOARD OF GOVERNORS

Elected April 10, 1984

L.J.D. Batten	Saskatoon
J.N. Beal, C.A.	Toronto
Marcel Bertrand, C.A.	Montreal
Helmut Birk, C.A.	Montreal
C.A. Blanchard	Quebec
W.J. Buckwold, C.A.	Winnipeg
Gérard Coulombe	Montreal
G.D.N. Covert, Q.C.	Halifax
A.B. Davidson	Vancouver
* H.L. Doane, F.C.A.	Halifax
Leonard Eisen, C.A.	Toronto
W.R. Fitzpatrick, C.A.	Saint John
G.W. Flynn, C.A.	Edmonton
François Gagnon, C.A.	Ste-Foy
* R.B. Goodwin	Winnipeg
* J.S. Hausman	Toronto
L.H. Hergott, C.A.	Saskatoon
G.H. Heximer, C.A.	Edmonton
H.J. Kellough	Vancouver
* André Lesage, C.A.	Montreal
D.C. Nathanson	Toronto
R.T. Neville, F.C.A.	Toronto
Marc Noël	Montreal
* J.S. Palmer, Q.C.	Montreal
* M.A. Regnier, Q.C.	Montreal
* G.W. Riehl, F.C.A.	Toronto
D.W. Robertson, F.C.A.	Victoria
A.R.A. Scace, Q.C.	Toronto
A.K. Scales, Q.C.	Charlottetown
Ian Scobell, C.A.	Vancouver
R.G.S. Shead	Winnipeg
D.W. Smith	Toronto
E.W. Stratton, C.A.	St. John's
J.E.G. Vavasour	St. John's

\* Executive Committee of the Board of Governors

## OFFICERS

James S. Palmer, Q.C., Chairman

H. Lawrence Doane, F.C.A., Vice-Chairman  
and Chairman of the Executive Committee

Robert B. Goodwin, Vice-Chairman

Gordon W. Riehl, F.C.A., Past Chairman

Douglas J. Sherbaniuk, Q.C., Director

Arthur W. Berry, C.A., 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. (deceased)  
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. (deceased)  
\* 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  
\* J. Claude Couture, Q.C., Montreal  
  
\* Advisory Committee of Past Chairmen



# CANADIAN TAX FOUNDATION

## STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 1983

### ASSETS

OPERATING FUND	1983	1982
<b>CURRENT ASSETS</b>		
Cash .....	\$ 135,609	\$ 77,811
Investments (note 2) .....	1,360,447	1,381,483
Accrued interest and accounts receivable .....	37,956	96,040
	<u>1,534,012</u>	<u>1,555,334</u>
<b>FIXED ASSETS</b>		
Furniture and office equipment .....	108,579	102,399
Leasehold improvements .....	90,400	90,400
	<u>198,979</u>	<u>192,799</u>
Accumulated depreciation and amortization .....	75,215	55,317
	<u>123,764</u>	<u>137,482</u>
<b>RESEARCH ENDOWMENT FUNDS (notes 2 and 3)</b>		
Investments .....	1,712,341	1,511,305
	<u>\$3,370,117</u>	<u>\$3,204,121</u>

### LIABILITIES

<b>OPERATING FUND</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities .....	\$ 317,938	\$ 356,202
Deferred revenue — subscriptions .....	417,178	349,003
	<u>735,116</u>	<u>705,205</u>

### BALANCE OF FUNDS

<b>OPERATING FUND</b> .....	922,660	987,611
<b>RESEARCH ENDOWMENT FUNDS (note 3)</b>		
Board-designated .....	1,711,035	1,511,035
Donor-designated .....	1,306	270
	<u>1,712,341</u>	<u>1,511,305</u>
	<u>\$3,370,117</u>	<u>\$3,204,121</u>

Approved on behalf of the Board of Governors:

G. W. Riehl  
Chairman

J. S. Palmer  
Vice-Chairman

# CANADIAN TAX FOUNDATION

## STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE

YEAR ENDED DECEMBER 31, 1983

REVENUE	1983	1982
Subscriptions:		
Individual .....	\$ 585,554	\$ 522,062
Corporate .....	217,358	207,319
	802,912	729,381
Conference registrations .....	938,740	967,208
Investment income .....	116,178	167,455
	<u>1,857,830</u>	<u>1,864,044</u>
EXPENDITURE		
Conference direct expenses .....	536,839	615,221
Research salaries .....	323,072	285,464
Rent .....	237,783	222,491
Administration salaries .....	176,478	159,186
Annual general meeting .....	34,564	33,129
Depreciation and amortization expense .....	19,898	19,189
Employee benefits .....	49,011	30,495
General office expense .....	28,148	25,505
Library books and periodicals .....	38,970	34,809
Office printing, stationery and supplies .....	18,456	19,511
Postage .....	25,477	22,340
Professional fees .....	16,539	25,992
Publications .....	104,496	119,608
Research consulting .....	550	3,120
Telephone and telegraph .....	22,175	21,338
Transfer to research endowment fund (note 3) .....	75,660	—
Travelling — staff .....	1,745	3,006
— board .....	12,920	13,453
	<u>1,722,781</u>	<u>1,653,857</u>
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 135,049</u>	<u>\$ 210,187</u>

## STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE

YEAR ENDED DECEMBER 31, 1983

BOARD-DESIGNATED FUNDS	1983	1982
REVENUE		
Investment income .....	\$ 160,500	\$ 220,527
Transfer from operating fund (note 3) .....	75,660	—
	<u>236,160</u>	<u>220,527</u>
EXPENDITURE		
Authors' fees .....	93,983	108,310
Editing and review of manuscripts .....	22,078	15,250
Postage and handling .....	27,906	19,200
Printing .....	64,048	59,293
Typesetting .....	28,145	7,439
	<u>236,160</u>	<u>209,492</u>
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 0</u>	<u>\$ 11,035</u>
DONOR-DESIGNATED FUNDS		
REVENUE		
Donations .....	\$ 1,000	\$ 250
Investment income .....	36	20
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 1,036</u>	<u>\$ 270</u>

# CANADIAN TAX FOUNDATION

## STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1983

OPERATING FUND	1983	1982
Balance at beginning of year	\$ 987,611	\$ 777,424
Excess of revenue over expenditure for the year	135,049	210,187
	<u>1,122,660</u>	<u>987,611</u>
Transfer to board-designated research endowment fund (note 3)	200,000	—
Balance at end of year	<u>\$ 922,660</u>	<u>\$ 987,611</u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance beginning of year	\$1,511,035	\$1,500,000
Transfer from operating fund (note 3)	200,000	—
Excess of revenue over expenditure for the year	—	11,035
Balance at end of year	<u>\$1,711,035</u>	<u>\$1,511,035</u>
DONOR-DESIGNATED		
Balance beginning of year	\$ 270	\$ —
Excess of revenue over expenditure for the year	1,036	270
Balance at end of year	<u>\$ 1,306</u>	<u>\$ 270</u>

## STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1983

WORKING CAPITAL DERIVED FROM		
Operations	1983	1982
Excess of operating fund revenue over expenditure for the year	\$ 135,049	\$ 210,187
Add back depreciation and amortization, not requiring a current outlay of funds	19,898	19,189
	<u>154,947</u>	<u>229,376</u>
WORKING CAPITAL APPLIED TO		
Transfer to board-designated research endowment fund (note 3)	200,000	—
Additions to fixed assets	6,180	3,514
	<u>206,180</u>	<u>3,514</u>
(DECREASE) INCREASE IN WORKING CAPITAL	(51,233)	225,862
WORKING CAPITAL — beginning of year	850,129	624,267
— end of year	<u>\$ 798,896</u>	<u>\$ 850,129</u>
COMPONENTS OF WORKING CAPITAL		
Current assets	\$1,534,012	\$1,555,334
Current liabilities	735,116	705,205
	<u>\$ 798,896</u>	<u>\$ 850,129</u>



# NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1983

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Investments

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

### 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 revenue applicable to future periods is recorded in the accounts as deferred revenue.

### Pension Plan

The Foundation has a trustee, contributory pension plan covering substantially all of its salaried employees. The policy of the Foundation is to fund pension costs in the year accrued.

## 2. INVESTMENTS

A summary of investments is as follows:

	1983	1982
Operating Fund		
Term deposits and guaranteed investment certificates		
at cost maturing within twelve months	\$1,237,659	\$1,258,695
Other investments at their written-down value	122,788	122,788
	<u>\$1,360,447</u>	<u>\$1,381,483</u>
Research Endowment Fund		
Term deposits at cost maturing within twelve months	\$1,712,341	\$1,511,305

## 3. RESEARCH ENDOWMENT FUND

During 1983 the Governors appropriated an additional amount of \$200,000 out of the Foundation's operating funds to the Board-designated Research Endowment Fund. Any shortfall in the revenue generated by the research endowment fund necessary to defray the current year's expenses of research projects is charged against the operating fund and in 1983 amounted to \$75,660.

## 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, 1983 the Foundation has commitments of approximately \$408,178 for the future production of various publications and tax papers.

## 6. PENSION COSTS

There are no unfunded past service costs and, according to the latest actuarial valuation, the asset value of the fund exceeds the total of vested benefits. The total expense for 1983 was \$22,023 (1982 — \$10,810).

## 7. COMPARATIVE FIGURES

Certain of the comparative figures for 1982 have been reclassified to conform with the financial statement presentation adopted for 1983.

## 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, 1983 and the statements of operating fund revenue and expenditure, 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, 1983 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 27, 1984

CLARKE, HENNING & CO.

CHARTERED ACCOUNTANTS

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

APRIL 10, 1984

At the Annual Conference banquet last November, the Honourable Donald J. Johnston, Minister of State for Economic Development and Minister of State for Science and Technology, was generous in his acknowledgment of the Foundation's work:

"As a young practitioner, I gained first-hand knowledge of the value of the Foundation's activities. Not only are many topical and substantive issues addressed at conferences sponsored by the Foundation, but the Foundation has also played an important role in the formulation of fiscal policy. Many senior members over the years have taken time from busy and lucrative practices to contribute to public policy debates. I hope to see that role enhanced."

The accomplishments of the Foundation during the past year attest that this was not an indulgence in hyperbole, but an insightful perception of the contribution of the Foundation to the improvement of the tax laws and to citizen education in public finance.

In my report today, I shall deal with some of the events of 1983 and the Director will comment on others.

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 disappointing to have to report that, for the second consecutive year, we experienced a net decline in individual memberships: 96 in 1983 compared with 207 in the previous year. The reason for the decline was, of course, the depressed economic conditions that we have endured in recent years. That the downward trend in membership affairs may be reversing itself is indicated by the net increase of 71 individual members to the end of February this year. The increase is attributable primarily to the invitation we extended last fall to all newly qualified chartered accountants to join the Foundation at one-half the regular individual membership rate. It has long been our policy to make this special rate available to lawyers and chartered accountants in their first year after qualification. To the end of February, 269 new members availed themselves of this opportunity. In the light of this encouraging response, we propose to repeat the invitation in 1984.

We also experienced a modest decline in corporate memberships. Although nine corporations joined the Foundation in 1983, seventeen corporations terminated their membership, particularly for reasons of economy, cessation of business and takeovers.

When one considers the continuing high level of interest in the field of taxation, and the number of practitioners, businessmen, academics, students and others who would derive real benefit from the Foundation, there seems no reason to doubt that our support will grow. A central focus of our membership efforts this year will be to attract increased corporate support. Last month, the Governors mounted a campaign to enroll new corporate subscribers in all parts of Canada. Apart from the financial considerations, it is important that all regions and interests be adequately represented in a national organization such as ours. Members can assist the new Board of Governors, one of whose tasks is to ensure that finances are sufficient to meet the needs of the Foundation, by referring to them any companies which might subscribe if approached.

Turning now to our finances, I would point out that in the Notice of Annual General Meeting a complete statement for 1983 has already been given to members. Accordingly I shall comment only on the main results of the year which, on the whole, were quite satisfactory. Our subscription revenues, which exceeded \$800,000, were \$73,500 higher than in the previous year, primarily because of an increase in the individual membership fee from \$70 to \$80. The higher fee is justified by the increase in both the cost and quantity of material being produced by the Foundation. Even a modest program of research nowadays requires a heavy financial outlay for personnel, travel, printing, library facilities and so on.

Since the mid-1970s, the Foundation has come to rely more heavily on conference revenues and investment income. These funds have been essential for the Foundation's continued financial health. In 1983, our conference activities, particularly the Annual Conference, generated net revenue of \$400,000, an increase of \$50,000 over 1982. On the other hand, total investment income declined by \$111,000 to \$276,000 by reason of the steady drop in interest rates throughout the year. The Foundation's investments, which amounted to \$3,000,000 at year end, are handled under the supervision of the Executive Committee, with relatively little help from professional investment advisers. One of the items on the agenda of the next meeting of the Finance and Audit Committee will be to consider whether greater reliance should be placed on investment counsel in the management of our funds.

Expenditures rose by \$95,000, the main increase being for salaries, rent, and the publication and distribution of commissioned studies. The year ended with a favourable balance of \$135,000 in the Operating Fund, after a transfer of \$75,000 to the Research Endowment Fund to cover the short fall in the revenue generated by the Fund to defray the expenses of research projects.



Apart from the story that the figures tell, it may be helpful if I sum up the Foundation's situation in nonquantitative terms. It has been evident for the past few years that the Foundation's activities are growing. This remains true today and we expect it to continue into the near future. The working assumption which underlies our longer-range planning is that at least a moderate rate of growth should be kept in our sights.

Over the past year, much thought and effort has gone into planning the automation of several functions in the Foundation's operations. Within the next few weeks we expect to make a substantial outlay for high technology office equipment, which will be a heavy contributor to improvements in membership administration and, in due course, in conference administration, library operations and certain research activities.

You will be interested to learn that the selective distribution policy for Foundation publications that was adopted last year has been generally well received. Foundation members are a heterogeneous group whose interests are widely varied. The new policy has enabled us better to target the dissemination of our publications and, at the same time, achieve substantial economies in printing, handling and distribution costs.

#### Public Affairs

With a view to increasing awareness of the Foundation, efforts have been expanded to maximize the visibility and impact of our research, publications, conferences and representations to government. We have prepared press releases on certain publications, arranged television and radio interviews for speakers and officers, encouraged reporters to call on Foundation staff for information and comments on stories falling within our purview, and advertised in the newspapers certain of our publications and conferences and the advantages of membership.

#### Conferences

Equal in importance to any other phase of its operations is the Foundation's conference program which, in 1983, was an active one. Let me speak first of our Annual Conference. For many members this is our principal function of the year, and we are particularly anxious to have it turn out successfully. I believe the conference last November in Montreal was in every respect up to the high standards we have tried to maintain. Among the more than fifteen hundred persons in attendance were a distinguished group of government officials and visitors from abroad, several of whom took part in the proceedings. While there was considerable diversity in the range of subjects discussed, the main focus of attention was on the proposed amendments to the Income Tax Act.

As I mentioned at the commencement of my report, the guest of honour and banquet speaker was the Honourable Donald J. Johnston. We were very pleased to have him with us, for he is a long time friend of the Foundation and, prior to his entry into politics, was a contributor to our publications and a participant in our conferences.

The Corporate Management Tax Conference, the twentieth in this series of meetings designed primarily for representatives of our corporate members and their advisers, was devoted to a discussion of income tax aspects of real estate transactions. This topical theme attracted a near record attendance of 600 persons. Since the publication of the report of the proceedings last fall, we have received a steady stream of requests for copies from all parts of the country.

As for the regional conference program, the situs of the eighth annual Prairie Provinces Tax Conference was Winnipeg in February. On the recommendation of the Planning Committee, the British Columbia Tax Conference, traditionally held in May, was postponed to September to permit the tax changes announced in the April federal budget to be included in the program. An innovation at the Journées d'études fiscales, our annual French language conference, which was held in Montreal in September, was the provision to registrants of a binder containing the full text of all the papers. This service was so warmly received that we shall make every effort to provide papers in advance for all regional conferences. The Atlantic Provinces Tax Conference, jointly sponsored by St. Mary's University, was held in Halifax in September.

Two special conferences were convened last year. At the request of the federal government, the Foundation held a three-day symposium in July for the purpose of considering ways of achieving simplification of the small business provisions of the Income Tax Act which, even to the tutored eye, are excessively opaque. In addition to Foundation members, several representatives of the federal government were present, including members of the House of Commons Standing Committee on Finance, Trade and Economic Affairs and the Senate Standing Committee on Banking, Trade and Commerce, as well as senior officials of the Department of Finance. The prepared papers and discussants' comments doubtless constitute the most comprehensive analysis that the provisions have ever received.

This to me was perhaps the highlight of the year. We were able to assemble an impressive group of tax specialists who contributed their efforts to make this an outstanding success.

Finally, in October, for the third consecutive year, the Foundation was pleased to present a two-day conference in Calgary that was devoted to a review and analysis of recent tax, incentive, and financing developments affecting the petroleum industry.



A full agenda of conferences is planned for the current year. The Prairie Provinces Tax Conference, held in Calgary in February, was given over primarily to a discussion of the 1983 income tax amendments. The British Columbia Tax Conference, which is co-sponsored by the Faculty of Law at the University of British Columbia, will be held in May in Vancouver and the Journées d'études fiscales in June in Montreal. A second French language conference has been tentatively planned for September. The national coverage will be rounded out in the fall with the Atlantic Provinces Tax Conference, to be jointly sponsored by Dalhousie University.

The Corporate Management Tax Conference is scheduled for June in Toronto. The theme for discussion is "Selected Income Tax Aspects of the Purchase and Sale of a Business".

As has already been announced, the 1984 Annual Conference will be held on November 26-27-28 at the Harbour Castle Hilton in Toronto.

#### Board of Governors

Later in this meeting you will be asked to elect a Board of 34 Governors. In accordance with the constitution of the Foundation, nominations have been made by the President of the Canadian Bar Association, Robert H. McKercher, Q.C., and the President of the Canadian Institute of Chartered Accountants, Phillip P. Aspinall, C.A. Of the nominations received from those officers, the majority are Governors at present but it is my pleasure to read to you the names of those who are not, notwithstanding that these will already be known to you as leading members of their respective professions.

They are:

L.J.D. Batten	Saskatoon
Marcel Bertrand, C.A.	Montreal
Helmut Birk, C.A.	Montreal
Gérard Coulombe	Montreal
A. Barry Davidson	Vancouver
Leonard Eisen, C.A.	Toronto
Gordon W. Flynn, C.A.	Edmonton
Robert B. Goodwin	Winnipeg
Lee H. Hergott, C.A.	Saskatoon
Ralph T. Neville, F.C.A.	Toronto
Marc Noël	Montreal
A.K. Scales, Q.C.	Charlottetown
Ian Scobell, C.A.	Vancouver

Mr. Goodwin is no stranger to the Board, having served previously from 1979 to 1982.

There are thus 13 new nominees for the office of Governor and consequently there are 13 present members of the Board who are to retire. They are:

David G. Barry	Saint John
J. Claude Couture, Q.C.	Montreal
John H. Currie	Calgary
David W. Davies, F.C.A.	Toronto
Robert G. Dittmer, C.A.	Saskatoon
H. Roger Germain, C.A.	Montreal
Larry A. Kyle, Q.C.	Regina
Marc Leduc	Montreal
Boris G. Levine, C.A.	Montreal
Peter E. McQuillan, F.C.A.	Toronto
George A. Stekl, C.A.	Vancouver
David G. Sweet, F.C.A.	Vancouver
Duane E. Wikant	Calgary

I would be falling very short of my duty if I did not extend to them on your behalf a very sincere thanks for their considerable efforts on behalf of the Foundation. Their work during their terms of office has contributed immeasurably to the successful carrying on of the Foundation's tasks. I should perhaps warn the retiring Governors that they ought to consider themselves only semi-retired from the Board, since we shall continue to seek their assistance in many phases of the Foundation's work.

We are indebted to them all, but I know that you would like me particularly to express our appreciation for loyal service to Claude Couture, Q.C., who retires as Past Chairman. Mr. Couture has been a Governor for a total of seven years and during this time was active on the various committees and held the post of Vice-Chairman of the Board. I think that no other member has been as constant in attendance at meetings of the Board and the Executive Committee. He has at all times brought wisdom and experience to bear on the problems with which the Foundation has been faced.

Following this meeting, your new Board will meet to elect its officers for the coming year. I should like, therefore, to record my thanks to my fellow officers and Governors and to many other friends of the Foundation whose help in various ways throughout the tenure of my office has made this year a notable one for me and, perhaps, also in the life of the Foundation. I am sure I speak also for my colleagues on the retiring Board in extending my best wishes and warmest welcome to the incoming Board.

Finally, I want to express on your behalf, our sincere appreciation for the effort that Douglas Sherbaniuk and the staff of the Foundation have continued to provide. The successes of this past year are really theirs.

I now move, seconded by J. Claude Couture, Q.C., the following resolution - namely, that this report of the Foundation for the fiscal year ended on December 31, 1983 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.

G.W. Riehl, F.C.A.  
Chairman  
April 10, 1984

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

APRIL 10, 1984

Publications and Research

It is my pleasant duty to report on the Foundation's research and publications during the past year. My responsibility is a pleasant one, as will become apparent as the details of these programs unfold.

The publication program lies at the heart of the Foundation's operations. It constitutes the main channel for communication of the results of the Foundation's research and conference activities, not only to members but also to a much larger body of readers in business and professional offices, universities and public libraries, both in Canada and abroad. Members will be interested to know that our publications are going to over 40 countries and that our mailing list now exceeds 10,000.

A broad spectrum of material emanates from the Foundation. It includes the bi-monthly Canadian Tax Journal, reports of conference proceedings, handbooks on the revenues and expenditures of federal, provincial and municipal governments, and monographs on a wide variety of subjects.

To ensure that our publication standards are met, articles submitted for the Journal and manuscripts for books are reviewed by staff members or one or more outside referees in private practice, the universities or the business community. Almost invariably the product is better for their efforts. Unsolved problems are uncovered, articulation is improved, and erroneous judgment is corrected. Quality control for us is more than a slogan.

Even after a manuscript for a book has successfully passed the review process and has been accepted for publication, the impatience of the author to see his work in print must not infrequently be allayed by an explanation of our editorial process. Every manuscript is carefully edited, citations are checked, and the volume is indexed. In addition, the publication goes through one galley proof or more and at least one page proof. Appearance is a matter of concern that involves design and art work and adds to the time lag between submission and publication. While this interval varies, on the average it runs between six and twelve months -- from the author's view, an unbearably long period, but in retrospect, a not unreasonable span to assure a product worthy of the author and the publisher.



While time does not permit extended comment on our publications and research projects, a few words on each may be of interest.

The Canadian Tax Journal is internationally recognized as a leading periodical in the field of public finance. Now in its thirty-second year, its pages attract serious writers on a wide variety of tax and fiscal matters. The contents include not only articles but also eight features, seven of which have been published for a number of years.

A new feature made its debut last fall. It is "Current Tax Reading", which is edited by Professor Brian J. Arnold of the Faculty of Law at the University of Western Ontario. As members are aware, in the last decade there has been an explosion in the amount of literature on all aspects of taxation. It is no longer possible for a person to read or even be aware of the tax books, articles and other material being published about Canadian taxation. Even more difficult is the problem confronting those who are trying to keep up with significant developments in other tax systems, especially in countries with which Canadians have significant business transactions and investments, such as the United States and the United Kingdom. It is hoped that this feature will help readers to cope with this flood of literature.

The feature is not intended to be a traditional book review column. Rather, it will provide a wide-ranging view of selected pieces of all forms of tax literature - government reports, books, articles, and conference proceedings, for example. Some publications will be reviewed in depth, others may simply be noted. Although the feature has appeared in only three issues, the response of readers makes it clear that it is a welcome addition to the Journal and will be widely read.

The twenty-ninth consecutive edition of The National Finances, our annual analysis of the federal government's revenues and expenditures, was distributed to members in February 1983. While publication for nearly three decades may long since have diminished any novelty about this handbook, it has established its importance as an invaluable reference for those who have an interest in the financial operations of the federal government.

Our biennial companion piece, Provincial and Municipal Finances, which analyzes the revenues and expenditures of provincial and local governments, was published in October.



With a view to keeping readers informed in a timely way on current provincial budgets, the research staff is preparing articles for publication in the Journal that will deal with 1984 provincial budgets as they are brought down. The first article, covering the budgets of British Columbia, Alberta, Saskatchewan, Nova Scotia and Newfoundland, will appear in the March-April issue.

Four new issues were added to our series of tax papers. In Canadian R & D Incentives: Their Adequacy and Impact, D.G. McPetridge and J.P. Warda compare R & D incentives in Canada with those provided in major industrial countries. They come 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 twenty countries examined (the exception is Singapore). Their conclusion is reinforced, of course, by the enactment earlier this year of generous new R & D tax incentives.

At a time when the plight of the unemployed seems to capture the daily headlines, J.R. Kesselman's Financing Unemployment Insurance is of highly topical interest. In terms of total expenditures, the unemployment insurance program has become the largest single program of the federal government, with an estimated cost of \$11.8 billion in 1983. In addition to its magnitude, the U.I. 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 U.I. program.

There is a riches of material in a study of major interest to practitioners, Timing and Income Taxation: The Principles of Income Measurement for Tax Purposes, by Brian J. Arnold. This volume focusses primarily on the timing aspects of measuring income from various sources, particularly business profits, for tax purposes. Since the income tax is an annual tax, the allocation of items of income or deduction to particular taxable years can have an important bearing on taxpayers' liability for many reasons. In his discussion of timing factors, the author makes useful comparisons both of their treatment for financial accounting purposes and tax purposes and of the way in which they are dealt with under Canadian tax laws and those of the United States and the United Kingdom.

We have been given to understand that Professor Arnold's book will be widely used for teaching purposes.

Taxation of Private Corporations and Their Shareholders, by Howard J. Kellough and Peter E. McQuillan has evoked especially commendatory comments from members. Virtually all aspects of the activities of a private corporation and its relationship with its shareholders are affected by the many complex income tax rules that apply to corporations and their shareholders in general and by a number of statutory provisions specifically aimed at such corporations.

The purpose of this book is to examine the main income tax problems encountered by private corporations and their shareholders, with a view to providing assistance in resolving them. It covers a broad array of subjects that range from tax considerations in forming a private corporation to the tax implications on the death of a shareholder.

The volume runs to 825 pages and is a great credit to the authors, two busy practitioners who expended hundred of hours of creative effort between the launching of the project in 1978 and publication of the study last fall. If a biblical quotation is appropriate, I offer you Ecclesiastes, chapter 7, verse 8: "Better is the end of a thing than the beginning thereof".

Other publications distributed to members in 1983 include 1982 Tax Developments, our annual compilation of tax developments in Canada as reported in the Journal feature, "Checklist"; the report of the proceedings of the 1983 Corporate Management Tax Conference; and the report of the proceedings of the 1982 Annual Conference.

The research and publications program for 1984 is shaping up to be a very busy one. Two of our regular publications will be coming off the press later this month, the thirtieth edition of The National Finances, 1983-84 and 1983 Tax Developments.

So far this year, two Tax Papers and a supplement to the index have been issued. The first monograph was the fourth edition of J. Harvey Perry's popular Taxation in Canada. It is not so much a revision as a complete rewriting, necessitated by the transformation of the Canadian tax system since the publication of the third edition in 1961. The many fundamental changes in all major Canadian taxes have resulted in an outpouring of tax literature, which has been directed primarily at particular aspects of the tax laws. What has been missing is a concise, clear and systematic account of the entire system. This volume fills that need. It provides in simple and understandable terms an up-to-date description of each of the principal federal, provincial and municipal taxes, income and commodity tax administration, and budgetary systems. It should enable the general reader, as well as business people, tax practitioners, and students of public finance better to understand the tax system.

Last week the Foundation published International Issues in Taxation: The Canadian Perspective, by Donald J.S. Brean. Canada's stake in foreign trade and investment gives this country a particular interest in well-ordered international tax arrangements. Hence, the importance and timeliness of this study, which investigates the national implications, for Canada, of the international tax environment, a subject that bristles with complexities and controversies. The author discusses the role of tax treaties, the size and composition of Canadian direct and portfolio investment abroad and foreign direct and portfolio investment in Canada and examines in detail the impact of the interaction of national tax systems on both types of investment.



The fourth volume of the cumulative index to Foundation publications was published early this year. It covers publications issued in 1981 and 1982 and contains not only a detailed breakdown of subject matter but also an author index and an index of cases and will serve to make the wealth of information contained in our publications considerably more accessible. It is our intention to publish index supplements annually until the next consolidation in 1986.

Two other studies are scheduled for publication this year. The first is a revision of Canadian Tax Policy, by R.W. Boadway 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. The original version of the book, published in 1980, has been in steady demand, particularly by universities. The first printing was quickly sold out and, although we have reprinted the book three times, our stock is depleted. We are therefore pleased at the prospect of having a revised and updated edition available in the near future.

In page proof is the fifth volume in the Foundation's eight-volume series on Financing Canadian Federation, entitled Local Government Finance in Canada, by Harry 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 municipal governments raise and spend money and the problems and opportunities they encounter in the process. It will constitute a major addition to the scanty Canadian literature on this subject.

Its importance is perhaps enhanced by the fact that two research organizations that, over many years, focussed their activities on the affairs of local government closed their doors in 1983 primarily because of financial difficulties - the Bureau of Municipal Research last summer and the Institute of Local Government at Queen's University at the end of the year.

The remaining three studies in the 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, Director of the Institute for Policy Analysis 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 principle 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.

I shall be surprised if we do not publish at least one of these remaining studies by the end of the year, but my limitations as a prophet have been indicated by my failures in the past.

Several other projects are proceeding on schedule.

Professor Brian J. Arnold is making good progress with a major study of the foreign accrual property income and foreign affiliate provisions of the Canadian income tax system. The purpose of the study is to describe in detail the operations 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 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. Certain aspects of the study have been completed and appeared as articles in the Canadian Tax Journal over the past year.

Since he commenced this study in 1982, Professor Arnold has met with tax officials, practitioners and scholars in the United States, the United Kingdom, France and Germany. At the present time he is in Tokyo to meet with Japanese experts in international taxation.

A.J. Robinson of the Department of Economics at York University has completed a first draft of his study on provincial retail sales taxes and is in the process of revising it. These taxes are a major source of revenue and warrant a thorough analysis.

Roger S. Smith, Dean of the Faculty of Business Administration and Commerce at the University of Alberta, with the assistance of David B. Perry, 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 Harvard Law School and Professor Paul McDaniel of the Boston College of Law School.

At a time when the revision of Canadian pension laws is a major focus of public attention, the Foundation's study, Social Security in Canada, by John L. Burbidge of the Department of Economics at McMaster University, will be of broad interest. The study will analyze the effects of social security programs and provide a critical evaluation of alternative proposals for reform of social security.

Professors Robin Boadway, Neil Bruce and Jack Mintz, all of the Department of Economics at Queen's University, are proceeding with their examination of the influence of corporate and personal taxes on corporate markets. The study focusses on how taxes influence savings and investment in an open economy such as that of Canada.

Finally, Professors Thomas A. Wilson and Peter Dungan will soon 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 analyze 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.

#### Staff

The past year has brought a number of changes in the Foundation's staff. Arthur W. Berry was appointed Treasurer last May. He is a chartered accountant with many years' experience as a financial officer in industry. In addition to his duties as overseer of our finances and office manager, he has devoted many hours to planning the automation of some of our operations.

Last fall, my secretary, Thora Harris, graciously submitted to retirement after eleven years of service. She is a delightful person, capable and efficient, and was a great help to me in so many ways. All of us wish her many years of good health and happiness.

I am pleased to have had the secretarial services of Virginia Gibson since Mrs. Harris' departure.

Early this month we welcomed back to the ranks of the research staff Karin Treff, who was on leave of absence for six months to enjoy the pleasures of motherhood. Karin joined the staff as secretary. She showed an interest in, and aptitude for, working with public finance data and now serves as assistant to the research staff, David Perry, Mary Gurney and Millie Goodman. They have long produced some of the publications for which the Foundation is best known.

The most recent addition to the staff is Vera Bradley, who replaces Karin Treff as secretary to the research staff.



The library is, of course, an indispensable resource for those undertaking research in the field of public finance. Supervision of our growing collection falls to Marjorie Robinson, the Librarian. She is also a talented indexer and was responsible, with the assistance of Thora Harris, for the production of the cumulative index, to which I referred earlier. Ron McLeod is the helpful Assistant Librarian, who will go to endless pains in tracking down an elusive book or article or in providing service to those who wish to use the library in person or by telephone.

Laurel Schwartz is the Foundation's Editor. She supervises the editing and production of the increasing flow of publications produced by Foundation staff and outside writers and personally edits the Canadian Tax Journal. Contributors have come to know how helpful she can be in making a mediocre manuscript acceptable and a good manuscript even better. She is ably assisted by Mary Alice Neal, the reference editor.

Conference administration is a major duty of Pat Hillmer, who is also Secretary of the Foundation and our public relations officer. The extensive program of conferences in 1983 made it a particularly busy year for her. Her efficient and courteous assistants are Marg Brown and Leesa Armstrong, who have come to be familiar figures at registration desks at Foundation conferences in all parts of the country.

For Burt Joyner, who assists the Treasurer, a major responsibility is the management of our growing publications department.

The work of the secretarial staff is indispensable to the success of our activities, and I am pleased to acknowledge the capable help of Ruth Cornish, Marg Goldup and Ann MacAlonen, who assist with membership affairs, and Pat Hunt who serves both as secretary and receptionist.

I cannot let this occasion pass without noting that, for the first time, a member of the staff has reached a milestone of thirty years of service. It was in April 1954 that Mary Gurney came to the Foundation as a member of the secretarial staff. She has, of course, for many years been a member of the research staff. A more dedicated, generous and thoughtful colleague one could hardly hope to have.

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

Douglas J. Sherbaniuk  
Director  
April 10, 1984







