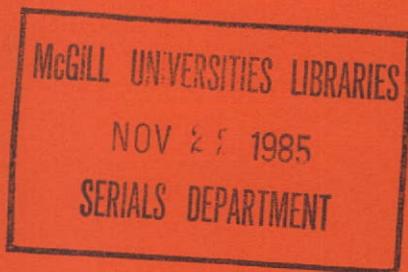


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Thirty-ninth Annual Report

For the year ending December 31, 1984



Canadian Tax Foundation
L'Association Canadienne
d'Etudes Fiscales

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

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MCGILL UNIVERSITY

Thirty - ninth Annual Report

For the year ending

December 31, 1984

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 23, 1985

L.J.D. Batten	Saskatoon
Marçel Bertrand, C.A.	Montreal
Helmut Birk, F.C.A.	Montreal
David A.G. Birnie	Vancouver
Robert D. Brown, F.C.A.	Toronto
W.J. Buckwold, C.A.	Winnipeg
Serge Chevalier, C.A.	Montreal
O.N. Clarke	Corner Brook
Gérard Coulombe	Montreal
A.B. Davidson	Vancouver
* H.L. Doane, F.C.A.	Halifax
Leonard Eisen, F.C.A.	Toronto
W.R. Fitzpatrick, C.A.	Saint John
G.W. Flynn, C.A.	Edmonton
Guy Fortin	Montreal
François Gagnon, C.A.	Ste-Foy
* R.B. Goodwin	Winnipeg
L.H. Hergott, C.A.	Saskatoon
James M. MacGowan, Q.C.	Halifax
J.G. McCulloch, C.A.	Vancouver
Thomas E. McDonnell, Q.C.	Toronto
R.T. Neville, F.C.A.	Toronto
Marc Noël	Montreal
* J.S. Palmer, Q.C.	Calgary
Victor Peters	Toronto
* M.A. Regnier, Q.C.	Montreal
* A.R.A. Scace, Q.C.	Toronto
A.K. Scales, Q.C.	Charlottetown
G.R. Schulli, C.A.	Calgary
Alan M. Schwartz, Q.C.	Toronto
Ian Scobell, C.A.	Vancouver
E.W. Stratton, C.A.	St. John's
David Y. Timbrell, F.C.A.	Toronto
Donald H. Watkins	Calgary

* Executive Committee of the Board of Governors

OFFICERS

H. Lawrence Doane, F.C.A., Chairman

Robert B. Goodwin, Vice-Chairman
and Chairman of the Executive Committee

James S. Palmer, Q.C., Past Chairman

Douglas J. Sherbaniuk, Q.C., Director

Arthur W. Berry, C.A., Treasurer

Patricia A. Hillmer, Secretary

PAST CHAIRMEN

Molyneaux L. Gordon, K.C. (deceased)

Gordon R. Munnoch, K.C. (deceased)

J. Grant Glassco, F.C.A. (deceased)

W.G.H. Jephcott, F.C.A. (deceased)

Claude S. Richardson, Q.C. (deceased)

Kenneth LeM. Carter, F.C.A. (deceased)

* Lazarus Phillips, Q.C., Montreal

* Thomas A.M. 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

* Gordon W. Riehl, F.C.A., Toronto

* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1984

ASSETS

OPERATING FUND	1984	1983
CURRENT ASSETS		
Cash	\$ 66,816	\$ 135,609
Investments (note 2)	1,756,143	1,360,447
Accrued interest and accounts receivable	46,961	37,956
	<u>1,869,920</u>	<u>1,534,012</u>
FIXED ASSETS		
Computer equipment	51,793	—
Furniture and office equipment	109,159	108,579
Leasehold improvements	90,400	90,400
	<u>251,352</u>	<u>198,979</u>
Accumulated depreciation and amortization	105,535	75,215
	<u>145,817</u>	<u>123,764</u>
RESEARCH ENDOWMENT FUNDS (note 2)		
Investments	<u>1,751,225</u>	<u>1,712,341</u>
	<u><u>3,766,962</u></u>	<u><u>3,370,117</u></u>

LIABILITIES

OPERATING FUND		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	332,251	317,938
Deferred revenue — subscriptions	441,180	417,178
	<u>773,431</u>	<u>735,116</u>

BALANCE OF FUNDS

OPERATING FUND	1,242,306	922,660
RESEARCH ENDOWMENT FUNDS		
Board-designated	1,749,764	1,711,035
Donor-designated	1,461	1,306
	<u>1,751,225</u>	<u>1,712,341</u>
	<u><u>3,766,962</u></u>	<u><u>3,370,117</u></u>

Approved on behalf of the Board of Governors:

J. S. Palmer
Chairman

H. L. Doane
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1984

	1984	1983
REVENUE		
Subscriptions:		
Individual	\$ 692,466	\$ 585,554
Corporate	240,798	217,358
	<hr/>	<hr/>
933,264	802,912	
Conference registrations	1,164,920	938,740
Investment income	155,955	116,178
Publication Sales	100,077	72,327
	<hr/>	<hr/>
	2,354,216	1,930,157
EXPENDITURE		
Conference expenses	624,074	536,839
Research salaries	365,251	323,072
Rent	244,561	237,783
Administration salaries	197,975	176,478
Annual general meeting	38,542	34,564
Depreciation and amortization expense	30,320	19,898
Employee benefits	169,254	49,011
General office expense	26,919	28,148
Library books and periodicals	39,774	38,970
Office printing, stationery and supplies	31,046	18,456
Postage	33,143	25,477
Professional fees	13,439	16,539
Publications	181,246	176,823
Research consulting	—	550
Telephone and telegraph	22,085	22,175
Transfer to research endowment fund	—	75,660
Travelling — staff	4,300	1,745
— board	12,641	12,920
	<hr/>	<hr/>
	2,034,570	1,795,108
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	\$ 319,646	\$ 135,049

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1984

	1984	1983
BOARD-DESIGNATED FUNDS		
REVENUE		
Investment income	\$ 203,615	\$ 160,500
Transfer from operating fund	—	75,660
	<hr/>	<hr/>
	203,615	236,160
EXPENDITURE		
Authors' fees	92,361	93,983
Editing and review of manuscripts	9,735	22,078
Postage and handling	6,020	27,906
Printing	28,705	64,048
Typesetting	28,065	28,145
	<hr/>	<hr/>
	164,886	236,160
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	38,729	0
DONOR-DESIGNATED FUNDS		
REVENUE		
Donations	—	1,000
Investment income	155	36
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	\$ 155	\$ 1,036

CANADIAN TAX FOUNDATION

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1984

OPERATING FUND	1984	1983
Balance at beginning of year	\$ 922,660	\$ 987,611
Excess of revenue over expenditure for the year	<u>319,646</u>	<u>135,049</u>
Transfer to board-designated research endowment fund	<u>1,242,306</u>	<u>1,122,660</u>
Balance at end of year	<u><u>1,242,306</u></u>	<u><u>922,660</u></u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance beginning of year	1,711,035	1,511,035
Transfer from operating fund	<u>—</u>	<u>200,000</u>
Excess of revenue over expenditure for the year	<u>38,729</u>	<u>—</u>
Balance at end of year	<u><u>1,749,764</u></u>	<u><u>1,711,035</u></u>
DONOR-DESIGNATED		
Balance beginning of year	1,306	270
Excess of revenue over expenditure for the year	<u>155</u>	<u>1,036</u>
Balance at end of year	<u><u>\$ 1,461</u></u>	<u><u>\$ 1,306</u></u>

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1984

WORKING CAPITAL DERIVED FROM	1984	1983
Operations		
Excess of operating fund revenue over expenditure for the year	\$ 391,037	\$ 135,049
Add back depreciation and amortization, not requiring a current outlay of funds	<u>30,320</u>	<u>19,898</u>
	<u><u>421,357</u></u>	<u><u>154,947</u></u>
WORKING CAPITAL APPLIED TO		
Transfer to board-designated research endowment fund	<u>—</u>	<u>200,000</u>
Additions to fixed assets	<u>52,373</u>	<u>6,180</u>
	<u><u>52,373</u></u>	<u><u>206,180</u></u>
INCREASE (DECREASE) IN WORKING CAPITAL	368,984	(51,233)
WORKING CAPITAL — beginning of year	798,896	850,129
— end of year	<u>1,167,880</u>	<u>798,896</u>
COMPONENTS OF WORKING CAPITAL		
Current assets	1,869,920	1,534,012
Current liabilities	<u>702,040</u>	<u>735,116</u>
	<u><u>\$1,167,880</u></u>	<u><u>\$ 798,896</u></u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1984

1. SIGNIFICANT ACCOUNTING POLICIES

Investments

Term deposits, guaranteed investment certificates and Government of Canada treasury bills 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 at the following annual rates on a straight-line basis.

Computer equipment	20%
Furniture and office equipment	10%
Leasehold improvements	10%

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:

	1984	1983
Operating Fund		
Term deposits, guaranteed investment certificates and treasury bills at cost maturing within twelve months	\$1,722,455	\$1,237,659
	33,688	122,788
Other investments at their written-down value	<u>1,756,143</u>	<u>1,360,447</u>
Research Endowment Fund		
Term deposits at cost maturing within twelve months	<u>\$1,751,225</u>	<u>\$1,712,341</u>

3. 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.

4. PUBLICATION COMMITMENTS

At December 31, 1984 the Foundation has commitments of approximately \$661,753 for the future production of various publications and tax papers.

5. 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 1984 was \$116,366 (1983 - \$22,023) of which \$71,391 was spent to upgrade pension payments to the Foundation's pensioners.

6. COMPARATIVE FIGURES

Certain of the comparative figures for 1983 have been reclassified to conform with the financial statement presentation adopted for 1984.

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, 1984 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 considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Foundation/l'Association as at December 31, 1984 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 25, 1985

CLARKE, HENNING & CO.
CHARTERED ACCOUNTANTS

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

APRIL 23, 1985

The Annual General Meeting affords the Chairman an opportunity to report on certain aspects of the Foundation's affairs over the past year. It takes on special significance on this occasion, for 1985 is a major milestone in the history of the Foundation, marking as it does the fortieth anniversary of the formation of this unique nonprofit organization under the joint sponsorship of the Canadian Bar Association and the Canadian Institute of Chartered Accountants.

As research organizations go in Canada, 40 years is a venerable age. Throughout this period, the Foundation, through its research, publications, conferences, and representations to government, has sought to contribute to the improvement of the tax laws and the process of citizen education in the fields of taxation and fiscal policy. Its functions of constructive criticism, objective research, and public education were never more necessary than today, when reform of the tax laws is being voiced in many quarters and the need for scrutiny of public spending is widely recognized.

That the Foundation has achieved a measure of success in its endeavours is perhaps borne out by the tribute paid to it recently by the Minister of Finance. In his address to the Annual Conference of the Foundation last November, the Honourable Michael Wilson remarked:

"The Foundation has made, and continues to make, an indispensable contribution to the discussion and resolution of tax problems in Canada. As finance minister, I am a grateful beneficiary of your expertise and your devotion to excellence. Let me take this opportunity to thank you ... for your dedicated work in the past and for the assistance I know I can count on in the times ahead."

The Foundation has attained the stature of a national research institution whose high standards of objectivity, impartiality, and integrity

are well known. In carrying out its various activities, it has enjoyed close relations with members of the sponsoring professions, governments, and the business and academic communities, and has often drawn on their talents. It has attracted a broad base of support among corporate and individual members, and today is a tribute to the wisdom of its founders.

Membership and Finance

The Foundation relies today, as it has since its inception, on individual and corporate memberships as a principal source of revenue. It was therefore a matter of regret to have to record net decreases in individual members in 1982 and 1983. I am pleased to report that the downward trend has reversed itself and that we enjoyed a net increase of 26 new individual members last year, not a substantial number by historical standards it is true, but it is a shift in the right direction. That this trend cannot be taken for granted is borne out by the fact that, to the end of March this year, we have recorded a net decline of 229 individual members.

The corporate subscribers picture is brighter. There was a net addition to the rolls of 12 new corporate members compared with a decline of 8 in the previous year. The encouraging results in 1984 are due primarily to the efforts of Governors, who, commencing last spring, contacted a number of prospective members, brought our work to their attention, and encouraged their support of the Foundation. The membership campaign by Governors will be continued this year.

It is worth saying over and over again that suggestions from our members as to how one might attract additional corporate and individual support are always welcome.

The full details of the Foundation's financial position and operations for 1984 are contained in the audited financial statements that accompanied the notice of this meeting. To help you translate this array of figures into the practical aspects of our operations, there are a few matters I bring especially to your attention. Subscriptions were up appreciably, from \$803,000 in 1983 to \$933,264 in 1984, partly because of new individual and corporate members but particularly because of a modest increase in the individual membership fee from \$80 to \$90. Conferences and

investments have produced income that is indispensable for the support of Foundation operations. Our conferences, particularly the Annual Conference, generated net revenue of \$540,846 last year compared with \$401,901 in the previous year. Total investment income increased from \$276,000 to \$360,000.

The Foundation's investments, which amounted to over \$3.5 million at year end, have been governed by policies laid down by the Executive Committee. The volatility of interest rates in the 1980s has posed a constant challenge in our efforts to invest our resources most productively and, of course, also underscores the importance of the Foundation's efforts to diversify its funding sources. To assist in the management of our funds, an Investment Committee was formed last month. The Chairman is Leonard Eisen, F.C.A., a Governor of the Foundation and Treasurer of The Oshawa Group. The Committee will meet two or three times a year to consider how best to invest the Foundation's funds.

Operating expenditures rose by some \$239,462. The substantial increase in employee benefits was attributable mainly to the cost of upgrading the pensions payable to retired employees. Although inflation's pace may be abating on an overall national scale, we continue to see its impact on the Foundation's own operations despite our strenuous efforts to achieve cost-cutting efficiencies. The year ended with a favourable balance of \$319,646 in the operating fund.

Let me now say a word about the Board-designated research endowment fund. With a view to providing an assured source of revenue to foster research, the Board of Governors in November 1981 authorized the appropriation of \$1.5 million out of the Foundation's operating funds to create a Board-designated research endowment fund. The income from the fund has been used to finance commissioned studies and research projects. Any surplus income generated by the fund is capitalized at the end of the year and becomes part of the endowment fund. If the income from the fund is insufficient to meet the research costs, the shortfall is made up from the operating fund. An additional \$200,000 was appropriated from the operating fund to the endowment fund in 1983, when the operating fund was in a surplus position and the endowment fund had suffered a shortfall. Last year, because certain studies were not completed when expected, the endowment fund had a surplus of \$38,000.

As is noted in the financial statements, the Foundation has commitments of \$661,753 for the future production of various publications, including tax papers. Additional studies have been commissioned this year and several others are under consideration. It will be apparent to you that the income from the endowment fund will almost certainly be far from adequate to cover the costs that will be incurred in connection with these studies. A desirable long-term goal will be to increase the endowment fund to the point where funding a growing research program will be virtually self-sustaining.

In his report to the Annual General Meeting last year, my predecessor announced that a number of Foundation functions would be automated. In furtherance of this objective, we made substantial outlays for hardware and software to automate membership records, conference administration, and certain research activities with a view to achieving economies and efficiencies in these operations. For the past several months, the staff have been moving along a learning curve of how to get the best out of this ultra modern technology. In our budget for 1985, we have made provision for the acquisition of additional software and word processing equipment.

Conferences

Although research and publications are the main focus of attention in the day-to-day activities of the Foundation, it is fair to say that our conferences have come to be regarded as one of the most significant contributions made by the Foundation to the study and exposure of tax problems. As a focal point for the discussion of all manner of tax and fiscal issues, the conferences hold a unique place in Canadian public affairs.

At the Annual Conference last November, the attendance of nearly 1,900 persons made it the largest conference in our history. Some 60 speakers from the professions, business, governments, and the universities discussed a wide variety of topical tax issues. It was the first conference at which papers were delivered by both the Minister of Finance, the Honourable Michael Wilson, and the Minister of National Revenue, the Honourable Perrin Beatty. We were very pleased to have as our banquet speaker a highly respected member of the Canadian business community, Rowland C. Frazee, Chairman and Chief Executive Officer of the Royal Bank of Canada.

As a service to members, nearly 7,000 copies of papers delivered at the conference have been provided at nominal cost. Every effort is being made to expedite the preparation of the report of the conference proceedings, which is scheduled for publication in June.

The two-day Corporate Management Tax Conference, which was devoted to a discussion of "Income Tax Aspects of the Purchase and Sale of a Business," was held in Toronto in June. It attracted the largest attendance ever for this event, over 600 people.

As for the regional conference program, the Prairie Provinces Tax Conference was held in Calgary in February and the British Columbia Tax Conference, which is co-sponsored by the Faculty of Law at the University of British Columbia, in Vancouver in May. With a view to providing increased service to our Francophone members in Quebec, we offered two French language conferences last year, the Journées d'études fiscales in June and, for the first time, the Colloque sur la gestion fiscale in September. From all reports, the latter was well received and will become a regular part of our conference program. The Atlantic Provinces Tax Conference, jointly sponsored by Dalhousie University, was held in Halifax in late September.

This year, in addition to our regular conference program, we have made tentative plans to hold a special conference that will be devoted to an examination and analysis of recent developments in the tax treatment of the petroleum industry. It is scheduled for early October in Calgary. Major changes have already been announced by the federal and provincial governments in the Western Accord and further policy changes are anticipated in the federal spring budget and in policy statements to be made by the producing provinces.

This year's Corporate Management Tax Conference, the twenty-second in this series of meetings designed for our corporate members, will be devoted to the discussion of a topic of broad interest, "Tax Planning for Executive and Employee Compensation and Retirement." It will be held in Toronto in June. Finally, the Annual Conference will be held in Quebec city in November. We still recall with pleasure the charm of the city and the warmth of the hospitality accorded to us when we last met there in 1975.

Changes in the Board of Governors

It has been the consistent good fortune of the Foundation to have had on its Board of Governors people who invariably were prepared to contribute generously of their time and energy in advancing the interests of the Foundation -- in seeking new members, formulating policies, serving on committees, and planning and participating in conferences -- often at considerable sacrifice to themselves. This past year has been no exception.

Retiring from the Board this year to join the distinguished body of alumni of former Governors, who now number 387, are the following:

James N. Beal, C.A.	Toronto
Claude A. Blanchard	Quebec
G. David N. Covert, Q.C.	Halifax
James S. Hausman	Toronto
Glen H. Heximer, C.A.	Edmonton
Howard J. Kellough	Vancouver
André Lesage, C.A.	Montreal
David C. Nathanson, Q.C.	Toronto
Gordon W. Riehl, F.C.A.	Toronto
Donald W. Robertson, F.C.A.	Burnaby
Richard G. Shead	Winnipeg
David W. Smith, Q.C.	Toronto
J.E.G. Vavasour	St. John's

Over the years, retiring Governors have taken with them the sincere appreciation of the Foundation for their considerable efforts on its behalf during their terms of office. It seems only fitting, however, that they should receive some more tangible evidence of their service as Governors. Accordingly, commencing this year, a certificate recording the gratitude of the Foundation will be awarded to the retiring Governors.

I know I am voicing the opinion of all members when I express a special word of tribute to Gordon W. Riehl, F.C.A. He was first elected a Governor in 1972 and served until 1975. He was re-elected in 1981 and has since successively held the offices of Vice-Chairman, Chairman, and Past Chairman. During his terms of office, he has served the Foundation with distinction. Notable among his contributions in recent years were his initiative and advice in automating various functions in the Foundation and his effective solicitation of new corporate support during the Governors' membership campaign last year. As a member of the Advisory Committee of Past Chairmen, we look forward to having his assistance in helping to shape the work of the Foundation in the years to come.

Members of the Foundation have received a list of the nominations that, in accordance with our by-laws, have been made by the President of the Canadian Institute of Chartered Accountants, W.D. Grace, F.C.A., and the President of the Canadian Bar Association, Claude R. Thomson, Q.C. Among the nominees are a number who are not at present Governors. Most of them will be known to you as long time members of the Foundation and participants in its activities and as leading members of their professions in their respective communities across Canada. I should like to welcome them and introduce them to you.

David A.G. Birnie	Vancouver
Robert D. Brown, F.C.A.	Toronto
Serge Chevalier, C.A.	Montreal
O.N. Clarke	Corner Brook
Guy Fortin	Montreal
James M. MacGowan, Q.C.	Halifax
J.G. McCulloch, C.A.	Vancouver
Thomas E. McDonnell, Q.C.	Toronto
Victor Peters	Toronto
G.R. Schulli, C.A.	Calgary
Alan M. Schwartz, Q.C.	Toronto
David Y. Timbrell, F.C.A.	Toronto
Donald H. Watkins	Calgary

Mr. Timbrell is returning for a second tour of duty, having served previously from 1978 to 1981.

May I take this opportunity to thank sincerely my fellow officers and Governors for their help during my term as Chairman. Their warm support and cooperation have made the past year a thoroughly interesting and enjoyable one for me as well as a very gratifying experience. To the new officers and Governors, I extend my best wishes for every success in their endeavours.

I now move, seconded by Larry Doane, F.C.A., the following resolution -- namely, that this report of the Foundation for the fiscal year ended on December 31, 1984 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.

James S. Palmer, Q.C.
Chairman
April 23, 1985

REPORT OF THE DIRECTOR
TO THE THIRTY-NINTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION
APRIL 23, 1985

Publications and Research

Let me continue the review of our affairs that was begun by the Chairman, particularly our research and publications program.

Research in taxation and public expenditure, like research in other areas, is an effort to break new ground, to advance the frontiers of knowledge, and to gain new understanding of the ways in which our tax laws and spending programs work or do not work. Inevitably, some efforts succeed better than others. The objective of the research program is to seek out and support able tax professionals and practical scholars who will focus attention on topical as well as fundamental issues in taxation and government spending. Over the years, our projects have been carried out by a diverse group of people on our own staff, at universities, and in professional firms. The publications that result from their studies are intended to offer reliable, illuminating, and lasting contributions that will foster understanding of our tax system and spending programs within the professions, government, and the academic and business communities.

Although time does not permit extended comment on our publications and research projects, a few words on each will provide you with a composite snapshot of the activities that occurred under the auspices of the Foundation this past year.

That the Foundation is a major Canadian publisher is apparent from our output in 1984, which maintained the pace of recent years. A few statistics will indicate the magnitude of the publications program. We published 14 titles totalling over 7,600 pages and printed 126,000 volumes. In order to produce the Journal articles and features, conference papers, monographs, and other material, we drew on the talents of 225 contributing authors.

The Canadian Tax Journal, now in its thirty-third year, is perhaps the best known of our publications and is widely read and frequently quoted. Its contents include not only articles on a wide variety of subjects in the fields of taxation and public expenditure, but also nine features, which have established themselves as essential reading for all who are interested in the respective subjects they deal with. It is a pleasure to record the revival last summer, after a lapse of one and a half years, of the feature, "In the Library." It is prepared by the librarian, Ron MacLeod, and lists some of the recent acquisitions for our collection. Readers have found it useful as a source of information on current titles in the public finance field.

That the Journal continues to flourish and expand is clear from the six issues published in 1984. Five years ago, the average issue ran to 120 pages; last year it was 213 pages. The 1984 volume contained 23 articles, 82 feature titles, and 43 reviews of books and articles.

Readers of the Journal will notice a change in format in the near future. The Chairman mentioned in his report that, in order to enhance our service to Francophone members, we added to our conference program last September a second two-day conference, *Colloque sur la gestion fiscale*. The proceedings of both the *Journées d'études fiscales* and the *Colloque* have been very well received. Although we have long sought contributions to the Journal in French, relatively few articles have been submitted, with the result that the Journal is of limited interest to the Francophone community. Although we shall continue to seek articles in French, in order to make the Journal more relevant now to those who prefer to read French material, commencing with the May-June issue, authors of articles will be asked to prepare a two- or three-page summary in the language in which the article is written. It will be translated into the other official language and inserted at the commencement of the article. In due course, summaries may also be prepared for some of the features.

The thirtieth consecutive edition of The National Finances, our analysis of the federal government's revenues and expenditures, was distributed to members last April. Because data on federal finances are seen by the public as a dry, technical, and impenetrable jumble of numbers, this publication is designed to help the nonspecialist understand the fiscal information that is provided in a number of government publications. Although it may not appear on the best seller list, each year the book is read by hundreds of university

students, scholars in other research institutions, business and professional people, and officials at all levels of government.

Four monographs were issued last year, three in the Tax Papers series and one in the Financing Canadian Federation series. International Issues in Taxation: The Canadian Perspective, by Donald J.S. Brean, was published last April. 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 edition of J. Harvey Perry's Taxation in Canada 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.

The third Tax Paper was a revision of Canadian Tax Policy, by R.W. Broadway 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, was widely used as a classroom text and as a source for the general reader. I am glad to report that the revised edition continues to be a standard reference work in many university courses.

The fifth volume in the Foundation's series on Financing Canadian Federation was published last year. It is 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 constitutes a major addition to the scanty Canadian literature on this subject.

The fourth volume of the cumulative index to Foundation publications was distributed early last year. It covers publications issued in 1981 and 1982 and contains not only a detailed breakdown of subject matter but also an author and title index and an index of cases and will serve to make the wealth of information contained in our publications considerably more accessible. A few weeks ago, members received the index supplement covering 1983 publications. It is our intention to publish in 1986 a consolidation of index supplements for the period 1981 to 1985.

Other books distributed to members last year include 1983 Tax Developments, our annual compilation of tax developments in Canada as reported in the Journal feature Checklist, and the reports of the proceedings of the 1983 Annual Conference and the 1984 Corporate Management Tax Conference.

The publications program for 1985 will include at least three new monographs. Brian J. Arnold's treatise, Taxation of Controlled Foreign Corporations, is approaching completion. It is a major study of the foreign affiliate and foreign accrual property income 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.

A.J. Robinson of the Department of Economics at York University is in the final stages of revising the manuscript of his study on provincial retail sales taxes. These taxes are an important source of revenue and warrant a thorough analysis. This study will be the first major Foundation publication on the subject since Professor John Due's book, Provincial Sales Tax, in 1964.

Also nearing completion is the sixth volume in the Foundation's eight-volume series

on Financing Canadian Federation, 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 -- Switzerland, Germany, Austria, Australia, and the United States. There appears to be little knowledge in Canada of exactly how these different systems function, and a careful analysis of them indicates that some aspects of the experience of each of these countries may be relevant to Canada. Richard M. Bird, Director of the Institute for Policy Analysis at the University of Toronto, is the organizer of this project.

The two remaining studies are well along.

The study entitled Sharing and Coordinating Taxing Power and Revenues in Canada--The Federal-Provincial Tax Collection Agreements 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 in recent agreements. 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 study is a thorough revision and updating by David B. Perry of the Foundation's classic analysis of the historical evolution of federal-provincial fiscal arrangements. The revision will bring the story up to date through the important changes of 1982.

Several other projects are under way or will soon be commenced.

At a time when the revision of Canada's 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.

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

Thomas A. Wilson and Peter Dungan of the Institute for Policy Analysis at the University of Toronto are proceeding with 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.

Douglas G. Hartle, also of the Institute for Policy Analysis, is preparing a revision of his earlier Foundation study, The Expenditure Budget Process in the Government of Canada. The purpose of this volume is not to assess the effectiveness of government programs but rather to shed some light on the ways and means by which federal expenditure decisions are made and to indicate some of the forces that affect the outcome. Needless to say, the author has encountered difficulty in attempting to describe and analyze the expenditure budget process at a time when that process is in a state of evolution. The heavy demand by university professors and students exhausted our stock of the first edition, which we reprinted three times.

When Harry Kitchen was preparing his Foundation study, Local Government Finance in Canada, it became apparent to him that there was a dearth of up-to-date information and analysis of property taxation, the major source of tax revenue of municipal governments. Local government officials confirmed his perception. To shed light on this subject, he has undertaken a study of the property tax for the Foundation. In it he will describe the current state of property taxation in Canada, establish an analytical framework for evaluating it, conduct some empirical investigations into various aspects of the property tax system, undertake interprovincial and intraprovincial comparisons, and make suggestions for change.

A major issue in the field of government spending is the escalating cost of health care that seems to be spiralling out of control. Professor A.Y. Culyer is undertaking a comprehensive study of Canadian health care and its financial implications for the federal and provincial governments.

Two new studies will be commenced this summer. The first involves an examination of discrimination against nonresidents and foreign activities in the Canadian tax system. It will be undertaken by Brian J. Arnold. According to

Professor Arnold, there are at least 45 provisions of the Income Tax Act that discriminate in favour of Canadian residents and/or against nonresidents. Taking the Act as a whole, there are discriminatory provisions that operate at virtually every stage in the calculation of the tax payable. The study will identify the discriminatory aspects of the Canadian income tax system; then isolate, for more detailed analysis, a number of specific provisions clearly intended to regulate the Canadian cultural identity; and finally examine the rules of domestic and international law concerning discrimination.

The tax treatment of interest, both the income side and the deduction side, will be the subject of the second study. This project is appropriate at the present time for a number of reasons. First, the new accrual rules have not been subjected to any detailed scrutiny since their introduction. Also, interest deductibility continues to be a high priority matter for the Department of Finance. Third, there has been very little research and writing from a tax policy perspective on the tax treatment of interest in the Canadian tax system. The subject is thus one of the important issues confronting the Canadian tax system at the present time. Such a study will contribute to the public debate by illuminating the issues and the alternative policy choices and their consequences. The principal researcher will be D. Keith McNair, F.C.A., of the Faculty of Law at the University of Western Ontario.

Staff

Over the past year, one member of the staff resigned and another soon will be leaving us.

Marjorie Robinson, the Foundation's librarian since 1975, resigned in July to devote more time to her business, the preparation and marketing of a computerized index to taxation publications. One of her major accomplishments for us was the installation of the library at the time of our move to our present premises. Those who have used the library would agree, I am sure, that it is spacious, bright, well organized, easy to use, and a pleasure to work in.

Her separation from the Foundation is not complete, however. She was engaged to prepare the index supplement covering 1983 Foundation publications, which was issued earlier this month, and will perform a similar service with respect to 1984 publications.

Her successor is Ron MacLeod, who joined the staff in 1979 as Assistant Librarian. As his colleagues and other library users fully expected, he has performed the duties of Librarian in exemplary fashion.

I regret to announce that Leesa Armstrong, who has served for the past two and a half years as secretary and assistant to the Foundation's Secretary, Pat Hillmer, and the Editor, Laurel Schwartz, will be resigning at the end of this week to seek another career. She has demonstrated a high level of competence in her work and will be much missed, not only by those with whom she worked directly but also by the rest of her colleagues. We all wish her every success in her new endeavours.

Other members of the staff are by now familiar figures to many of our members. Our experienced and talented research team, David Perry, Milly Goodman, and Mary Gurney, have had a busy and productive year in contributing in many ways to our publications. Karin Treff joined the research group last year and is participating in a significant way in the preparation of some of our best known publications, such as The National Finances.

To Arthur Berry, the Foundation's Treasurer, falls the responsibility of keeping in touch with our subscribers and providing efficient and prudent management of our financial affairs. He discharges these duties with energy and enthusiasm. A major accomplishment during 1984 was automating the membership records, involving the 10,000 names on our mailing list, and completing the task on time and within budget.

Pat Hillmer looks after the multitude of matters involved in the administration of our extensive conference program, serves as Secretary of the Foundation, and is also our public relations officer. She and her capable assistants, Marg Brown and Leesa Armstrong, will not soon forget the fall of 1984, when the registration of nearly 1,900 people for the Annual Conference resulted in many overtime hours. Pat has worked closely with one of our computer consultants in developing a software program for conference administration that is state of the art.

Laurel Schwartz carries the important responsibility of editing, and supervising the editing, of a growing volume of articles, conference

papers, and studies, and also of attending to their production with our printers. One of her main responsibilities is the Canadian Tax Journal, which, as I mentioned earlier, has nearly doubled in size over the past few years.

Mary Alice Neal, Reference Editor and Editorial Assistant, bears responsibility for verifying the myriad footnotes and other references that appear in profusion in the Foundation's numerous publications. She pursues her task with painstaking care and perseverance. As a qualified law librarian, Ms Neal also assists in the library from time to time.

Burt Joyner not only assists the Treasurer but also serves as Manager of Publications Distribution.

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; Vera Bradley, secretary to the research staff; Pat Hunt, who serves both as receptionist and secretary; and Anne McAlonen, secretary to the Treasurer.

The Chairman in his remarks mentioned the automation of various Foundation functions. Fundamentally, of course, the technology is a means to an end, and our most important resource is the group of highly dedicated people who are staffing the operations. I welcome the opportunity afforded me at the Annual Meeting to express publicly my thanks to all of them for their cooperation and help.

Finally, 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.

D.J. Sherbaniuk
Director
April 23, 1985

