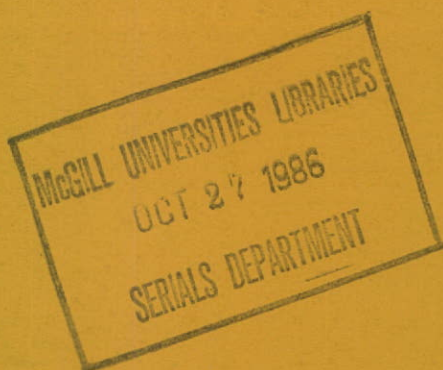


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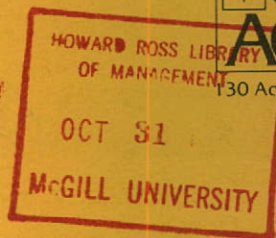
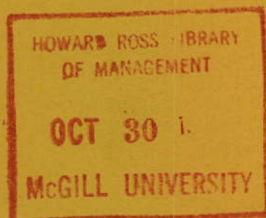
## *Fortieth Annual Report*

For the year ending December 31, 1985



Canadian Tax Foundation  
L'Association Canadienne  
d'Études Fiscales

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





Fortieth Annual Report

For the year ending

December 31, 1985

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 22, 1986

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
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
Douglas S. Ewens	Calgary
G.W. Flynn, C.A.	Edmonton
* Guy Fortin	Montreal
* R.B. Goodwin	Winnipeg
J.E. Gover, C.A.	St. John's
K.W. Grower, C.A.	Winnipeg
Stephen S. Heller	Montreal
L.H. Hergott, C.A.	Saskatoon
Alain Lamanque, C.A.	Montreal
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
Victor Peters	Toronto
A.K. Scales, Q.C.	Charlottetown
G.R. Schulli, F.C.A.	Calgary
Alan M. Schwartz, Q.C.	Toronto
Ian Scobell, C.A.	Vancouver
P.M. Stevens, F.C.A.	Moncton
* David Y. Timbrell, F.C.A.	Toronto
* P.N. Thorsteinsson, Q.C.	Vancouver
Donald H. Watkins	Calgary

\* Executive Committee of the Board of Governors



## OFFICERS

Robert B. Goodwin, Chairman

David Y. Timbrell, F.C.A., Vice-Chairman  
and Chairman of the Executive Committee

H. Larry Doane, F.C.A., 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)  
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John A. Wilson, F.C.A., Toronto  
M. Gerald Teed, Q.C. (deceased)  
\* A. Willard Hamilton, C.A., Montreal  
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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 (deceased)  
\* 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  
\* James S. Palmer, Q.C., Calgary  
  
\* Advisory Committee of Past Chairmen

# CANADIAN TAX FOUNDATION

## STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1985

ASSETS		1985	1984
OPERATING FUND			
CURRENT ASSETS			
Cash	\$ 56,990	\$ 66,816	
Investments (note 2)	1,726,035	1,756,143	
Accrued interest and accounts receivable	142,168	46,961	
	<u>1,925,193</u>	<u>1,869,920</u>	
FIXED ASSETS			
Computers, furniture and office equipment	213,771	160,952	
Leasehold improvements	90,400	90,400	
	<u>304,171</u>	<u>251,352</u>	
Accumulated depreciation and amortization	145,923	105,535	
	<u>158,248</u>	<u>145,817</u>	
RESEARCH ENDOWMENT FUNDS (note 2)			
Investments	2,143,424	1,751,225	
	<u>4,226,865</u>	<u>3,766,962</u>	
LIABILITIES			
OPERATING FUND			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	330,280	332,251	
Deferred revenue — subscriptions	484,248	441,180	
	<u>814,528</u>	<u>773,431</u>	
BALANCE OF FUNDS			
OPERATING FUND	1,268,913	1,242,306	
RESEARCH ENDOWMENT FUNDS			
Board-designated	2,141,560	1,749,764	
Donor-designated	1,864	1,461	
	<u>2,143,424</u>	<u>1,751,225</u>	
	<u>\$4,226,865</u>	<u>\$3,766,962</u>	

Approved on behalf of the Board of Governors:  
H. L. Doane  
Chairman

R. B. Goodwin  
Vice-Chairman

# **CANADIAN TAX FOUNDATION**

## **STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE** **YEAR ENDED DECEMBER 31, 1985**

	1985	1984
<b>REVENUE</b>		
Subscriptions:		
Individual	\$ 766,467	\$ 692,466
Corporate	243,591	240,798
	<u>1,010,058</u>	<u>933,264</u>
Conference revenue	1,084,887	1,164,920
Investment income	167,423	155,955
Publication sales	69,069	100,077
	<u>2,331,437</u>	<u>2,354,216</u>
<b>EXPENDITURE</b>		
Conference expenses	604,839	624,074
Research salaries	379,922	365,251
Rent	258,959	244,561
Administration salaries	198,301	197,975
Annual general meeting	39,639	38,542
Depreciation and amortization expense	40,388	30,320
Employee benefits	88,037	169,254
General office expense	30,289	26,919
Library books and periodicals	49,169	39,774
Office printing, stationery and supplies	27,446	31,046
Postage and courier	38,073	33,143
Professional fees	9,693	13,439
Publications	210,844	181,246
Telephone and telex	18,342	22,085
Travelling — staff	1,876	4,300
— board	9,013	12,641
	<u>2,004,830</u>	<u>2,034,570</u>
<b>EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR</b>	<u>\$ 326,607</u>	<u>\$ 319,646</u>

## **STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE** **AND EXPENDITURE**

**YEAR ENDED DECEMBER 31, 1985**

	1985	1984
<b>BOARD-DESIGNATED FUNDS</b>		
<b>REVENUE</b>		
Investment income	\$ 192,249	\$ 203,615
<b>EXPENDITURE</b>		
Authors' fees and expenses	72,473	92,361
Editing and review of manuscripts	21,406	9,735
Postage and handling	—	6,020
Printing	2,724	28,705
Typesetting	3,850	28,065
	<u>100,453</u>	<u>164,886</u>
<b>EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR</b>	<u>91,796</u>	<u>38,729</u>
<b>DONOR-DESIGNATED FUNDS</b>		
<b>REVENUE</b>		
Donations	250	—
Investment income	153	155
<b>EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR</b>	<u>\$ 403</u>	<u>\$ 155</u>

**CANADIAN TAX FOUNDATION**  
**STATEMENT OF BALANCE OF FUNDS**  
**YEAR ENDED DECEMBER 31, 1985**

OPERATING FUND	1985	1984
Balance at beginning of year	\$1,242,306	\$ 922,660
Excess of revenue over expenditure for the year	326,607	319,646
	<u>1,568,913</u>	<u>1,242,306</u>
Transfer to board-designated research endowment fund	(300,000)	—
Balance at end of year	<u>1,268,913</u>	<u>1,242,306</u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance at beginning of year	1,749,764	1,711,035
Transfer from operating fund	300,000	—
Excess of revenue over expenditure for the year	91,796	38,729
Balance at end of year	<u>2,141,560</u>	<u>1,749,764</u>
DONOR-DESIGNATED		
Balance at beginning of year	1,461	1,306
Excess of revenue over expenditure for the year	403	155
Balance at end of year	<u>\$ 1,864</u>	<u>\$ 1,461</u>

**STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**YEAR ENDED DECEMBER 31, 1985**

OPERATING ACTIVITIES	1985	1984
Excess of operating fund revenue over expenditure for the year	\$ 326,607	\$ 319,646
Items not involving cash		
— amortization and depreciation	40,388	30,320
Net change in non-cash working capital balances related to operations	<u>(54,110)</u>	<u>29,310</u>
	312,885	379,276
INVESTING ACTIVITIES		
Acquisition of fixed assets	(52,819)	(52,373)
Transfer of funds to Research Endowment Funds	(300,000)	—
	<u>(352,819)</u>	<u>(52,373)</u>
CHANGE IN CASH AND CASH EQUIVALENT	(39,934)	326,903
CASH AND CASH EQUIVALENT — beginning of year	1,822,959	1,496,056
— end of year	<u>1,783,025</u>	<u>1,822,959</u>
CASH AND CASH EQUIVALENT IS REPRESENTED BY		
Bank balances	56,990	66,816
Short term investments	1,726,035	1,756,143
	<u>\$1,783,025</u>	<u>\$1,822,959</u>



## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1985

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### Investments

Term deposits, bankers' acceptances, Government of Canada bonds and treasury bills are recorded at cost which approximates market 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.

Computers, furniture and office equipment 10% - 20%

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:

Operating Fund — short-term	1985	1984
Term deposits, bankers' acceptances and treasury bills	\$1,692,347	\$1,722,455
Other investments at their written-down value	33,688	33,688
	<u>1,726,035</u>	<u>1,756,143</u>
 Research Endowment Fund		
Treasury bills — short-term	1,101,236	1,751,225
Government of Canada bonds — long-term	1,042,188	—
	<u>\$2,143,424</u>	<u>\$1,751,225</u>

### 3. LEASE COMMITMENT

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

### 4. PUBLICATION COMMITMENTS

At December 31, 1985 the Foundation has commitments of approximately \$744,000 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 1985 was \$25,936. (1984 — \$116,366).

### 6. COMPARATIVE FIGURES

Certain of the comparative figures for 1984 have been reclassified to conform with the financial statement presentation adopted for 1985.

## AUDITORS' REPORT

### THE BOARD OF GOVERNORS AND 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, 1985 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, 1985 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 21, 1986

CLARKE HENNING & CO.  
CHARTERED ACCOUNTANTS

REPORT OF THE CHAIRMAN  
TO THE FORTIETH ANNUAL MEETING OF THE  
CANADIAN TAX FOUNDATION

APRIL 22, 1986

This report and that of the Director constitute a record of the main events in the affairs of the Foundation during the past year. The composite picture that emerges from these reports depicts a wide range of activities carried on by the Foundation in the fields of taxation and government expenditure, and attests that it has been a busy and productive year.

I shall provide details of certain of our activities and the Director will comment on others.

At the outset, let me remind you that on March 23, 1985, the Canadian Tax Foundation completed forty years of service in seeking improvement in Canada's tax system. Through its research, conferences, publications and representations to government, its cumulative contribution in the realm of public finance has been substantial, and those who have supported it and participated in its work can draw a measure of satisfaction from its accomplishments. Yet it is clear from the widening range and complexity of issues in the fields of taxation and government expenditure that much remains to be done. There is no such thing as a tax or expenditure policy for all seasons and the future promises ample opportunity for continued service by the Foundation to its members and the public. Thus, while 1985 marked the end of four decades of productive effort, it also marked the start of another.

Membership and Finance

Individual and corporate memberships have always been the major source of funds for Foundation activities. Only in the last few years have our conferences and investments contributed appreciable amounts to revenues. At December 31, 1985 there were 8,724 individual members. I regret to say that we had a net decrease of 63 for the year compared with an increase of 26 in 1984. We are carefully reviewing our individual membership affairs with a view to adopting measures that will restore the traditional annual growth pattern that we have enjoyed for so long.

As for corporate memberships, at December 31 there were 387 corporate subscribers, a net decrease of one compared with the previous year. If we add to this number 183 corporations represented indirectly through two association memberships on their behalf, we now have a total of 570 corporate supporters. We are seeking to strengthen the links between the Foundation and the business community. The governors have undertaken a systematic program to make Canadian corporations more aware of the work being done by the Foundation and to encourage them to provide support by becoming corporate subscribers.

Members recently received copies of our audited financial statements setting out financial data for 1985. It is easy to say that the figures speak for themselves and, despite occasional appearances to the contrary, they do. But they need some illumination. Subscription revenues, the principal category of income, increased by \$77,000 to a total of just over \$1 million, reflecting a modest increase in the individual membership rate from \$90 to \$100 for a regular membership and from \$45 to \$50 for a special membership, effective January 1, 1985. The rates are unchanged for 1986. The minimum corporate subscription increased from \$275 in 1984 to \$300 in 1985 and will remain at that amount for 1986.

Conferences have become an increasingly important factor in the financial stability of the Foundation. Last year they generated net revenue of \$480,000, compared with \$540,000 in 1984. Income from the Foundation's investments, the third largest source of revenue, remained nearly constant in 1984 and 1985 at \$360,000. In the light of the recent drop in interest rates and an expected further decline over the next several months, we anticipate reduced investment income in 1986. Indeed, the volatility of interest rates underscores the importance of diversification of funding sources for the Foundation. Overseeing our investments and securing the best return consistent with limited risk is the responsibility of the Investment Committee, which was appointed in March 1985. The Chairman is Leonard Eisen, F.C.A., a governor and Treasurer of the Oshawa Group.

Total expenditures declined by \$30,000, the main reason being the reduction in employee benefits as compared with the previous year, when a substantial amount was contributed to the pension plan to increase the pensions of retired employees.

The net result of the year's activities was a favourable margin of revenues over expenditures in the amount of \$326,000 in the Operating Fund. Although it is not the avowed purpose of a non-profit organization to seek a profit, we have a responsibility to make sure that expenses can be met and that our organization will endure and grow.



As for the Board-Designated Research Endowment Fund, which is intended to provide the resources to support commissioned research projects, delays in the completion of a number of studies resulted in a favourable balance of \$91,000. That we will incur in 1986 many of the expenses anticipated in 1985 is already apparent. By the end of this month we will have disbursed nearly as much as the total expenditures from the fund for all of 1985. It should be noted, too, as the financial statements make clear, that the Foundation has commitments of \$744,000 for the future production of various publications.

In the current year, significant expenditures will be incurred for additional computers, software, and word processing equipment. We have made notable progress in learning how to get the best out of the computers acquired over the past two years, which are used for research, conference administration, membership record keeping and financial statement preparation. We understand, of course, that this advanced equipment is not an end in itself but a means to an end, and that the most valuable resource continues to be the group of highly dedicated people who are staffing the operations.

#### Conferences

Public education in the broadest sense is one of the Foundation's primary objectives. It is served not only by our research and publications but also by our conferences. The Annual Conference was held in Quebec City last November and brought together over 1,500 lawyers, accountants, businessmen, government officials and academics. At the plenary, panel and workshop sessions a wide variety of topical issues was analyzed and explained by some of the most able experts in Canada. We were gratified to have visitors from abroad as well as a number of government officials take part in the program. The guest of honour and banquet speaker was the Honourable Donald S. Macdonald, who had recently concluded his duties as Chairman of the Royal Commission on the Economic Union and Development Prospects for Canada. He was no stranger to the Annual Conference, having participated in its deliberations on two previous occasions, in 1975 and 1976, when he was Minister of Finance.

The 1985 Corporate Management Tax Conference, the twenty-second in this series of meetings designed primarily for representatives of our corporate members and their advisors, was held in Toronto in June. The theme was "Tax Planning for Executives and Employee Compensation and Retirement." The luncheon speaker was Perry Anglin, Assistant Deputy Minister, Legislation Branch, Revenue Canada - Taxation, who discussed new directions in tax administration.

As for the regional conference program, the tenth annual Prairie Provinces Tax Conference was held in Edmonton in February. At the British Columbia Tax Conference, held in Vancouver in May, the luncheon speaker was the Honourable Perrin Beatty, the then Minister of National Revenue. The first of our two French language conferences, Journées d'études fiscales, was held in Montreal in June, and the second, Colloque sur la gestion fiscale, in Montreal in September. Halifax was the site of the Atlantic Provinces Tax Conference, which was held in October, in co-sponsorship with St. Mary's University.

The Foundation's fourth conference dealing with recent developments in the tax treatment of the petroleum industry was held in Calgary in October.

Plans approved for the current year provide once again for an active conference program. The Prairie Provinces Tax Conference, held in Winnipeg in February, was devoted primarily to a discussion of the income tax changes contained in Bill C-84. At the British Columbia Tax Conference in May, we anticipate the attendance of a substantial number of out-of-town registrants who will have the dual objective of expanding their knowledge of taxation and also taking in Expo 86. The luncheon speaker will be the Honourable Elmer MacKay, the Minister of National Revenue.

A special one-day conference will be held in Toronto on May 23 to discuss the topical subject, "Tax Planning for Private Corporations and Their Shareholders: Implications of Recent Changes." It will examine the impact of the new capital gains exemption, the alternative minimum tax, tough new attribution rules, and the proposed changes to the treatment of dividends as they relate to private corporations and their shareholders. The Journées d'études fiscales is scheduled for June, and the Colloque sur la gestion fiscale, for September. The national coverage will be rounded out in the fall with the Atlantic Provinces Tax Conference, which this year is co-sponsored by Dalhousie University.

The Corporate Management Tax Conference, to be held in June, will be devoted to a discussion of "Income Tax Considerations in Corporate Financing."

As has already been announced, the 1986 Annual Conference will be held on November 24-26 at the Royal York Hotel in Toronto.



## Representations to Government

The Foundation's efforts to improve the tax laws are not limited to research, conferences and publications. Over the years, it has appointed committees to make representations to government on technical aspects of proposed amendments to the law and also on the budgetary process, which has long been a matter of special interest and concern to the Foundation, particularly the convention of budget secrecy. In 1985, two committees organized under the auspices of the Foundation made representations, one on the budgetary process and the other on the amendments to the Income Tax Act contained in Bill C-84.

As you may recall, one of the consultative documents issued with the 1985 federal budget proposed a number of changes in the tax legislative process. The discussion paper was referred to the House of Commons Standing Committee on Procedure and Organization for consideration. A committee appointed by the Foundation undertook a detailed review of the paper and prepared a report, which was submitted to the House Committee. In November, the Foundation's committee appeared before the House Committee to speak to the submission and respond to questions. A number of the recommendations in the submission are reflected in the report tabled by the House Committee in December. The members of the Foundation's committee were B.J. Arnold, Robert D. Brown, F.C.A., Robert Couzin, Stanley E. Edwards, Q.C., Thomas E. McDonnell, Q.C., and Douglas J. Sherbaniuk, Q.C., who served as chairman.

On two previous occasions, Foundation committees prepared reports on the tax legislative process, one in 1977, at the request of the Honourable Donald S. Macdonald, Minister of Finance, and another in 1982, at the request of the Honourable Allan J. MacEachen, Minister of Finance. Several of the recommendations in the latter report were adopted in a Department of Finance green paper, On Opening Up The Budget Process, which was published in April 1982 and has formed the basis for the extensive consultation that has taken place in the formulation of tax changes in recent years.

In December, at the request of the House of Commons Standing Committee on Finance, Trade and Economic Affairs, the Foundation appointed a committee to appear before the House Committee to speak on technical aspects of Bill C-84. The committee members were Robert Couzin, Robert J. Dart, F.C.A., Michael A. Denega, C.A., William R. Lawlor, C.A., and Douglas J. Sherbaniuk, Q.C.

We were most grateful to both committees for the time and effort they expended in undertaking their respective assignments.

### Grant from the International Fiscal Association

A major resource of the Foundation is the extensive collection of public finance material in the library. Use of the collection is increasing each year, not only by the Foundation staff but also by members in all parts of the country.

According to the librarian, about 40 per cent of the 2,844 reference questions received in 1985 were concerned with tax systems outside of Canada. It is clear that maintaining and expanding the information we have about foreign tax systems is a matter of some priority.

I take this opportunity to express the warm thanks of the Foundation to the Canadian branch of the International Fiscal Association for its generous grant of \$25,000 to the Foundation, which is to be applied to the acquisition of international tax materials. The Association has also agreed to make an annual contribution of up to \$5,000 to provide for the yearly upkeep of the publications purchased, so long as funds are available. We have already used part of the grant to acquire a number of periodicals, books, looseleaf services and reports of cases in the international tax field that considerably enhance the collection and enable us to provide better service to our members.

### Changes in the Board of Governors

If I might speak for a moment about the Board, the following members will be retiring this year:

W.J. Buckwold, C.A.	Winnipeg
W.R. Fitzpatrick, C.A.	Saint John
François Gagnon, C.A.	Ste-Foy
J.S. Palmer, Q.C.	Calgary
M.A. Regnier, Q.C.	Montreal
A.R.A. Scace, Q.C.	Toronto
E.W. Stratton, C.A.	St. John's

On your behalf, and for myself as well, I express our appreciation to these men for their considerable efforts in advancing the affairs of the Foundation during their terms of office. As you know, our governors serve without remuneration, often at a considerable sacrifice to themselves and their professional duties. We are indebted to them all. In accordance with the procedure adopted at the Annual General Meeting last year, I take pleasure in awarding to each of them a certificate recording the gratitude of the Foundation.

May I address a special word of tribute to James S. Palmer, Q.C., who retires as Past Chairman. During his seven years on the Board, he provided invaluable guidance

and wise counsel in the conduct of our affairs. He was particularly helpful in organizing the Foundation's conferences on the tax treatment of the petroleum industry and in attracting new corporate supporters. We welcome him to membership on the Advisory Committee of Past Chairmen.

In a few moments you will be asked to elect a new Board of Governors. Included with the Notice of Meeting, you received a list of nominees named by the presidents of the Canadian Bar Association and the Canadian Institute of Chartered Accountants, pursuant to our by-laws. The nominees who are not at present governors are the following:

Douglas S. Ewens	Calgary
J.E. Gover, C.A.	St. John's
K.W. Grower, C.A.	Winnipeg
Stephen S. Heller	Montreal
Alain Lamanque, C.A.	Montreal
P.M. Stevens, F.C.A.	Moncton
P.N. Thorsteinsson, Q.C.	Vancouver

I extend to them a cordial welcome.

Mr. Thorsteinsson is returning to the Board, having served previously from 1970 to 1973.

As retiring Chairman I wish to express my gratitude and appreciation to my fellow officers and governors for their active support and cooperation and the many other friends of the Foundation who participated in conferences, served on committees, contributed articles, and helped in so many other ways throughout the tenure of my office.

I now move, seconded by David Y. Timbrell, F.C.A., the following resolution - namely, that this report of the Foundation for the fiscal year ending December 31, 1985 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.

H. Larry Doane, F.C.A.  
Chairman  
April 22, 1986



REPORT OF THE DIRECTOR  
TO THE FORTIETH ANNUAL MEETING OF THE  
CANADIAN TAX FOUNDATION

APRIL 22, 1986

Publications and Research

A substantial portion of my report today is devoted to an account of the Foundation's research projects completed or underway and its publications.

As the Chairman noted in his remarks, since its establishment forty years ago, the Foundation has defined its mission clearly - to contribute to the improvement of the tax laws and the process of citizen education in the fields of taxation and public expenditure primarily through its research and publications. This is the Foundation's *raison d'être*, the test it must pass if it is to justify the labours of its staff and the substantial sums of money it spends. Over a span of four decades, this central concern has lost none of its timeliness. Federal and provincial tax laws have given rise to new and pressing problems, and the rapid growth of the public sector has made apparent the need for intensive study of our expenditure system.

There are varied and intricate forces that converge to influence the development of tax policy and public spending in a society as pluralistic as ours. It is the Foundation's conviction that disinterested, competent research is one of the forces that can influence the course of debate on such disparate current issues as reconstruction of the corporate income tax, revision of the unemployment insurance program, and intergovernmental fiscal relations.

The Foundation regards publication as an essential part of the research process. If new information generated through research and analysis is to be of maximum use, it must be widely disseminated - to policy makers, practitioners, the press, scholars in universities and elsewhere, and the general public.

Let me be more specific about our publications program.

The centrepiece of our publications is, of course, the bi-monthly Canadian Tax Journal, which is well known to you. Now in its thirty-fourth year, its pages attract serious writers on a wide variety of tax and fiscal matters.

Its contents include not only articles but also nine features, which deservedly have come to be regarded as indispensable reading for those who seek to keep informed about the subjects they deal with. Two of the features have been edited by Foundation staff members since 1968: "Fiscal Figures" by David Perry and "Checklist" by Millie Goodman. The tenth anniversary of two other features was marked in 1985: "International Tax Planning," edited by Robert D. Brown, F.C.A., Vice-Chairman of Price Waterhouse and currently a governor of the Foundation, and "Current Cases", edited by T.E. McDonnell, Q.C., and R.B. Thomas, both of McMillan Binch. Mr. McDonnell, who was the sole editor until mid-1983, is also currently a governor.

The introduction last year, on an experimental basis, of a précis in French and English at the commencement of each article has evoked favourable comment and may now be regarded as a permanent feature of the Journal.

The thirty-first consecutive edition of The National Finances, our annual analysis of the federal government's revenues and expenditures, was distributed to members in March 1985. While publication for over 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. Preparation of the 1985-86 edition is well under way.

Provincial and Municipal Finances is our biennial book that analyses the revenues and expenditures of provincial and local governments. The twelfth edition will be published later this month. In recent years, public attention has been concentrated on federal revenues and expenditures, as the central government struggles to bring its spending and deficit under control. The importance of provincial and local governments is often overlooked. Yet the operations of these two levels of government have more immediate and direct impact on the average Canadian than those of the federal government. Health care, education, social assistance, transportation (including roads, streets and transit), police and fire protection, garbage collection, parks, and many more services are all provided by provincial and local governments. These two levels accounted for about 47% of all government tax revenue and 48% of all expenditure in 1984. Our publication provides information on the provincial and local governments that is comparable to that provided for the federal government in The National Finances. The format of the forthcoming edition has been revised to provide more information. For example, a new chapter reviews the main features of government enterprises at both levels. Also, for the first time, the book provides a brief analysis of the financial statements of a number of major Canadian cities and information on the operations of the Yukon and the Northwest



Territories and their local governments. As the territorial governments gain more and more of the functions of provincial governments, future editions of this publication will contain even more detail on the public sector in the far north.

Other regular Foundation publications that appeared during the year under review include the reports of the proceedings of the Corporate Management Tax Conference and the Annual Conference, and 1984 Tax Developments, our annual compilation of tax developments in Canada as reported in the Journal feature, "Checklist". The purpose of the latter is to bring together in one place for convenient reference information on federal and provincial budgets, amendments to regulations, and non-budgetary tax changes. The delay in the publication of the 1984 Annual Conference report, which we very much regret, was attributable to a number of production and distribution problems. We recognize that, to be useful to members, the report of the proceedings must be produced in a timely fashion. Accordingly, the Editor has taken a number of steps, including a change in format and the laying on of many more editorial hands, to ensure publication of the 1985 report by June, an ambitious target date for a volume running to 1,200 pages.

To make the wealth of information contained in the Foundation's extensive literature readily accessible and therefore more useful, the Foundation has published two consolidated indexes and four supplements, the most recent of which, covering 1984 publications, was issued last October. It is our intention to publish later this year a consolidation of index supplements covering the period 1981 to 1985. Many members have given us to understand that the indexes have been of great assistance to them in researching tax questions. Having the supplements consolidated into a single volume should result in even greater efficiency and convenience.

The sixth volume in the Foundation's eight-volume series on Financing Canadian Federation was published earlier this month. It is Federal Finance: An International Perspective, by Richard M. Bird. The previous five monographs were concerned with a broad spectrum of federal fiscal issues that were viewed, quite appropriately, primarily from a domestic perspective. The present study adds a new dimension to the analysis of these issues by examining them through the lens of foreign experience. It focuses on intergovernmental fiscal problems in five advanced federal countries - Switzerland, West Germany, Austria, the United States, and Australia - with a view to determining what lessons can be learned for Canada from the way in which these countries have attempted to resolve them.

The two remaining studies are well along. 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. We look to publication late this year, when interest in the quinquennial federal/provincial fiscal negotiations will be at its peak.

The last study in the series, Federal/Provincial Tax Sharing and Centralized Tax Collection in Canada, 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 publication of two monographs is imminent. Retail Sales Tax in Canada, by A.J. Robinson, is in press and will be distributed to members next month. The retail sales tax is a major source of provincial revenue and warrants a thorough analysis. This volume will be the first major Foundation publication on the subject since Professor John Due's book, Provincial Sales Tax, in 1964.

Brian J. Arnold's treatise, The Taxation of Controlled Foreign Corporations: An International Comparison, is in the final stages of publication. This study provides a comprehensive analysis of the taxation of controlled foreign corporations in six countries - Canada, France, Germany, Japan, the United Kingdom, and the United States. The book focuses specifically on tax legislation designed to prevent tax avoidance through the use of foreign corporations or trusts established in tax haven jurisdictions. The relevant legislation in each of the six countries is reproduced in appendices to the main text, and a selected bibliography also is provided. This volume will be of interest to tax professionals both in Canada and abroad.

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.

The taxation of income returns to capital is one of the most controversial elements of the tax structure. Robin Boadway, Neil Bruce, and Jack Mintz, all of the



Department of Economics at Queen's University, are in the final stages of their examination of the influence of corporate and personal taxes on capital markets. The study focuses on how taxes influence savings and investment in an open economy such as that of Canada and includes proposals for reform of both the corporate and personal income taxes. It is a particularly timely work, in the light of the current measures for restructuring the corporate income tax.

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 analyse recent Canadian policy within that framework. Also, once the analytical framework is established, it would be a relatively straightforward matter in the future to produce analyses of the impact of budgetary policies shortly after budgets appear.

Douglas G. Hartle, also of the Institute for Policy Analysis, has completed a first draft of the 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. We anticipate the same enthusiastic response to the revised edition as was accorded to the first edition, particularly by university professors and students.

The main source of tax revenue of municipal governments, the property tax, is the subject of a study by Harry M. Kitchen. 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. A.Y. Culyer is undertaking a comprehensive study of Canadian health care and its financial implications for the federal and provincial governments.

A project that is being pursued by Brian J. Arnold of the Faculty of Law at The University of Western Ontario involves an examination of discrimination against non-residents and foreign activities in the Canadian tax system. According to Professor Arnold, there are at least 45 provisions of the Income Tax Act that discriminate in favour of Canadian residents or against non-residents. 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.

A subject of widespread interest to the Canadian business community and their professional advisors is the tax treatment of interest, both the income side and the deduction side. This project is appropriate at the present time for a number of reasons. First, the new accrual rules have not been subject to any detailed scrutiny since their introduction. Second, interest deductibility continues to be a matter of concern to the Department of Finance. Third, there has been very little research and writing from a tax policy perspective on the tax treatment of interest under Canadian law. This 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 is D. Keith McNair, F.C.A., of the Faculty of Law at the University of Western Ontario.

In his classic two-volume work, Taxes, Tariffs, & Subsidies, published in 1955, J. Harvey Perry chronicled and commented on the fiscal history of Canada from earliest times to the post-World War II era. What has long been needed is a similar historical survey of major Canadian fiscal developments over the past four decades. Mr. Perry has accepted the formidable assignment of undertaking this survey project, and is making good progress.

Interest is running high in Canada in indirect taxation, particularly the replacement of the manufacturers' sales tax with some other form of commodity tax. With a view to shedding light on one possible alternative, the value added tax, Professor Sijbren Cnossen of Erasmus University in the Netherlands is preparing a study on "The VAT in EEC: Lessons for Canada."

Two new studies will be commenced this spring. The first involves an examination of both the administrative costs to government in collecting personal and payroll taxes and the costs to firms and individuals in complying with these taxes. Gathering data on compliance costs will entail face-to-face interviews with approximately 2,000 Canadian adults who will be asked about the expenses they incurred in completing their returns, the amount of time they spent doing so, and so on. There is a dearth of information on these important aspects of the Canadian tax system. Professor François Vaillancourt of the Department of Economics at the University of Montreal is the principal researcher. The only other Foundation monograph concerned with this general area was a pioneering effort published 25 years ago, The Costs of Tax Compliance, by Marion H. Bryden.



Finally, a team made up of John Helliwell of the Department of Economics at the University of British Columbia, Mary MacGregor and Andre Plourde of the Institute for Policy Analysis at the University of Toronto, and Robert McRae of the Department of Economics at the University of Calgary will soon commence a study on "Oil and Gas in Canada: The Impact of Policies and World Events." The introduction of the Western Accord, the moves to deregulate natural gas markets in Canada, and the recent drop in world oil prices have drastically altered the environment in which the Canadian oil and gas industry operates. The years that followed the first world oil price shock witnessed the introduction of a multitude of public policy measures designed to control the prices of crude oil and natural gas, to alter the way revenues generated by the oil and gas industry were taxed, and to distribute the new-found energy wealth. Among these policies was, of course, the National Energy Program, the last vestiges of which have recently been laid to rest. This project will look back at the evolution and the impact of world events and of policy changes on the Canadian oil and gas industry (with special emphasis on the post-1973 period), and glean some of the lessons that this episode should have taught us about the conduct of energy policy.

#### Staff

Several changes have occurred in the staff of the Foundation during the past year.

We were sorry to lose the services of Burt Joyner, who retired last fall after seven years as Manager of Publications Distribution and assistant to the Treasurer. His capable successor is Bruce Clarke.

It is with real regret that I inform you that Arthur Berry, C.A., on reaching the usual retirement age, has decided to leave the staff at the end of July, after three years of productive service as Treasurer. To him have fallen the responsibilities of keeping in touch with our members, providing efficient and prudent management of our financial affairs and, over the past 18 months, overseeing the automation of our membership and accounting records. He has discharged those duties with dedication and enthusiasm.

Additions to the staff in 1985 include Janet Ballantyne, our newest Research Associate, who was employed previously by Gulf Canada Limited and the Alberta Department of Energy and Natural Resources in a research capacity; Wendy Ingleson, who serves as secretary to the Foundation's Corporate Secretary and Editor; Diana Ezewski, the Assistant Librarian, and Astrid Elkins, my secretary for the past year.



Some of the most valuable publications emanating from the Foundation are the work of the research staff: David B. Perry, Millie Goodman, Mary Gurney, and Karin Treff. Mr. Perry has served in a public relations capacity as well, burnishing the image of the Foundation in his appearances on television and statements to the press.

As the Chairman pointed out in his remarks, the conference schedule for the current year is an ambitious one. The responsibility for looking after the multitude of matters involved in the administration of our conference program falls to Pat Hillmer, who also serves as Corporate Secretary of the Foundation. She has for many years benefited from the able assistance of Marg Brown.

Laurel Amalia is the Foundation's Editor. She supervises the editing and production of the increasing flow of publications produced by the Foundation staff and outside writers and personally edits the Canadian Tax Journal. Her competent and helpful assistant is Alysa Neal, the Reference Editor.

The library is a hub of activity for the growing number of Foundation members, university students, academics, and others undertaking research in the field of public finance. Supervision of our growing collection falls to our Librarian, Ron MacLeod.

The work of the secretarial staff is indispensable to the success of our activities, and I am pleased to acknowledge the unfailing cooperation and assistance of Vera Bradley, Ruth Cornish, Marg Goldup, Pat Hunt and Anne McAlonen.

Finally, I know I speak for the whole staff in acknowledging gratefully the generous help and encouragement that has been given to the Foundation by the Board of Governors and the members at large. On a more personal note, I want to say how much I have enjoyed a most congenial and cooperative association with Larry Doane and the other officers and governors. On behalf of the staff, I welcome the new Board and pledge them our best efforts and support.

D.J. Sherbaniuk  
Director  
April 22, 1986







