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Forty-First Annual Report

For the year ending December 31, 1986



Canadian Tax Foundation
L'Association Canadienne
d'Etudes Fiscales

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MCGILL UNIVERSITY

Forty-First Annual Report

For the year ending
December 31, 1986

CANADIAN TAX FOUNDATION
L'Association Canadienne d'Etudes Fiscales

THE BOARD OF GOVERNORS

Elected April 28, 1987

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* D.Y. Timbrell, FCA	Toronto
W.C. Turnbull, QC	Saint John
Ron Walsh, CA	Vancouver
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* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1986

ASSETS		
OPERATING FUND	<i>1986</i>	<i>1985</i>
CURRENT ASSETS		
Cash and marketable securities (note 2)	\$1,985,861	\$1,783,025
Accrued interest and accounts receivable	78,575	142,168
	<u>2,064,436</u>	<u>1,925,193</u>
FIXED ASSETS		
Computers, furniture and office equipment	243,945	213,770
Leasehold improvements	90,400	90,400
Library books and publications	1	1
	<u>334,346</u>	<u>304,171</u>
Accumulated depreciation and amortization	191,374	145,923
	<u>142,972</u>	<u>158,248</u>
RESEARCH ENDOWMENT FUNDS (note 2)		
Investments	2,394,618	2,143,424
	<u>4,602,026</u>	<u>4,226,865</u>
LIABILITIES		
OPERATING FUND		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	260,822	330,280
Deferred revenue — subscriptions	532,802	484,248
	<u>793,624</u>	<u>814,528</u>
BALANCE OF FUNDS		
OPERATING FUND	1,413,784	1,268,913
RESEARCH ENDOWMENT FUNDS		
Board-designated	2,391,560	2,141,560
Donor-designated	3,058	1,864
	<u>2,394,618</u>	<u>2,143,424</u>
	<u>\$4,602,026</u>	<u>\$4,226,865</u>

Approved on behalf of the Board of Governors:

R. B. Goodwin
Chairman

D. Y. Timbrell, FCA
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1986

REVENUE	<i>1986</i>	<i>1985</i>
Subscriptions:		
Individual	\$ 809,627	\$ 766,467
Corporate	<u>256,534</u>	<u>243,591</u>
	1,066,161	1,010,058
Conference revenue	1,342,198	1,084,887
Investment income	174,614	167,423
Publication sales	63,720	69,069
Grant from International Fiscal Association	<u>19,422</u>	—
	2,666,115	2,331,437
EXPENDITURE		
Conference expenses	678,931	604,839
Research salaries	439,803	379,922
Rent	284,245	258,959
Publications	247,625	210,844
Administration salaries	192,245	198,301
Annual general meeting	39,133	39,639
Depreciation and amortization expense	45,451	40,388
Employee benefits	90,479	88,037
General office expense	44,522	30,289
Library books and periodicals	66,983	49,169
Office printing, stationery and supplies	31,514	27,446
Postage and courier	40,763	38,073
Professional fees	6,550	9,693
Telephone and communications	12,676	18,342
Travelling — staff	1,480	1,876
— board	<u>9,572</u>	<u>9,013</u>
	2,231,972	2,004,830
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 434,143</u>	<u>\$ 326,607</u>

CANADIAN TAX FOUNDATION

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1986

BOARD-DESIGNATED FUNDS	1986	1985
REVENUE		
Investment income	\$ 208,981	\$ 192,249
EXPENDITURE		
Authors' fees and expenses	161,235	72,473
Editing and review of manuscripts	32,651	21,406
Postage and handling	5,161	—
Printing	26,968	2,724
Typesetting	22,238	3,850
	<u>248,253</u>	<u>100,453</u>
EXCESS OF (EXPENDITURE OVER REVENUE)		
REVENUE OVER EXPENDITURE FOR THE YEAR	<u>(39,272)</u>	<u>91,796</u>
DONOR-DESIGNATED FUNDS		
REVENUE		
Donations	1,000	250
Investment income	194	153
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 1,194</u>	<u>\$ 403</u>

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1986

OPERATING FUND	1986	1985
Balance at beginning of year	\$1,268,913	\$1,242,306
Excess of revenue over expenditure for the year	<u>434,143</u>	<u>326,607</u>
	<u>1,703,056</u>	<u>1,568,913</u>
Transfers to board-designated research endowment fund		
— board transfer	(250,000)	(300,000)
— current year's excess of expenditure over revenue	<u>(39,272)</u>	<u>—</u>
Balance at end of year	<u>1,413,784</u>	<u>1,268,913</u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance at beginning of year	2,141,560	1,749,764
Transfer from operating fund	<u>250,000</u>	<u>300,000</u>
	<u>2,391,560</u>	<u>2,049,764</u>
Excess of (expenditure over revenue) revenue over expenditure for the year	<u>(39,272)</u>	<u>91,796</u>
Transfer from operating fund — amount equal to excess of expenditure over revenue	<u>39,272</u>	<u>—</u>
Balance at end of year	<u>2,391,560</u>	<u>2,141,560</u>
DONOR-DESIGNATED		
Balance at beginning of year	1,864	1,461
Excess of revenue over expenditure for the year	<u>1,194</u>	<u>403</u>
Balance at end of year	<u>\$ 3,058</u>	<u>\$ 1,864</u>

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1986

	1986	1985
OPERATING ACTIVITIES		
Excess of operating fund revenue over expenditure for the year	\$ 434,143	\$ 326,607
Item not involving cash		
- amortization and depreciation	45,451	40,388
Net change in non-cash working capital balances related to operations	<u>42,689</u>	<u>(54,110)</u>
	522,283	312,885
INVESTING ACTIVITIES		
Acquisition of fixed assets	(30,175)	(52,819)
Transfers of funds to Research Endowment Funds	<u>(289,272)</u>	<u>(300,000)</u>
	<u>(319,447)</u>	<u>(352,819)</u>
CHANGE IN CASH AND CASH EQUIVALENT	202,836	(39,934)
CASH AND CASH EQUIVALENT — beginning of year	<u>1,783,025</u>	<u>1,822,959</u>
— end of year	<u>\$1,985,861</u>	<u>\$1,783,025</u>
CASH AND CASH EQUIVALENT IS REPRESENTED BY		
Bank balances	86,065	56,990
Short term investments	<u>1,899,796</u>	<u>1,726,035</u>
	<u>\$1,985,861</u>	<u>\$1,783,025</u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1986

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%

Library

Library books and periodicals are stated at a nominal value of \$1.

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.

Research Endowment Fund

Any shortfall in the revenue generated by the Research Endowment Fund necessary to defray the current year's expenditure on research projects is funded by the operating fund. In the current year, this shortfall in the fund amounted to \$39,272.

2. INVESTMENTS

A summary of investments is as follows:

	1986	1985
Operating Fund — cash and marketable securities		
— short-term		
Cash	\$ 86,065	\$ 56,990
Term deposits, bankers' acceptances and treasury bills	1,899,796	1,692,347
Other investments at their written-down value	—	33,688
	<u>1,985,861</u>	<u>1,783,025</u>
Research Endowment Fund		
Short term treasury bills and Government of Canada bonds	1,886,618	1,101,236
Long term Government of Canada bonds	508,000	1,042,188
	<u>\$2,394,618</u>	<u>\$2,143,424</u>

3. RESEARCH ENDOWMENT FUND

During the year the Governors authorized the transfer of \$250,000 from the Foundation's Operating Fund to the Board-designated Research Endowment Fund.

4. 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 current service costs are estimated to be \$25,500 of which \$12,229 was paid (1985 — \$25,936) and the balance was funded by the fund excess of assets over vested benefits.

5. 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.

6. PUBLICATION COMMITMENTS

At December 31, 1986 the Foundation has commitments of approximately \$650,000 for the future production of various publications and tax papers.

CANADIAN TAX FOUNDATION

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, 1986 and the statements of operating fund revenue and expenditure, research endowment funds revenue and expenditure, balance of funds and operating fund 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, 1986 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 26, 1987

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

REPORT OF THE CHAIRMAN
TO THE FORTY-FIRST ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION

April 28, 1987

In presenting this forty-first annual report of the chairman, it is my happy privilege to be able to record a busy and productive year in the affairs of the foundation. Several new research projects were undertaken, our conferences were well received from coast to coast and, as the director will elaborate, our efforts have yielded an impressive dividend in recent and forthcoming publications. Individual memberships were up, although corporate memberships declined slightly. Financially, the year ended with a substantial balance on the credit side of the books.

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

Membership and Finance

As you know, there are two classes of membership in the foundation: individual and corporate. The former are numerically the greater body, but each contributes to our financial strength. Needless to say, increases in both categories are most welcome.

During 1986, individual memberships increased, although not at as rapid a rate as we might have wished. At December 31, there were nearly 8,500 individual members, a net increase of 86 for the year, compared with a net decrease of 63 in 1985.

Corporate subscribers declined slightly in 1986. Although 19 new corporate members were added to the rolls, 28 corporations terminated their membership, particularly for reasons of economy and cessation of business. At the end of 1986 there were 384 corporate members. If we add to these the 183 companies that are represented indirectly through association memberships on their behalf, we now have a total of 567 corporate supporters.

On the eve of major tax reform, we anticipate burgeoning interest in tax matters. With the assistance of governors in all parts of the country, we are giving special attention to broadening the number of corporate subscribers. We believe that with proper organization and follow-up, there are good prospects for substantially increased support from the business sector.

The audited financial statements that were sent to members with the notice of this meeting contain our customary tabulations of the financial position of the foundation. Without entangling you in the details of the figures, let me sum up briefly the foundation's financial picture.

You will note that the results of the year, on the whole, were quite satisfactory. On the income side, subscription revenues increased by over \$56,000 to a total of \$1,066,000. The gain was attributable primarily to the carry-over from 1985 of the increase in the individual membership fee and, of course, the new individual memberships in 1986. Also, many corporate members voluntarily increased their subscriptions to the foundation by a total of \$13,000. It is a pleasant duty to express the foundation's appreciation for these contributions to the resources on which our work depends.

There was no increase in either individual or corporate membership fees in 1986. Commencing January 1, 1987, there have been modest increases in the individual membership fee from \$100 to \$110 for a regular membership and from \$50 to \$55 for a special membership, and in the minimum corporate subscription from \$300 to \$330. They are justified by the increase in both the cost and quantity of material being furnished to members.

Our conference activities generated net revenue of \$663,000, an increase of over \$180,000 from the previous year. A special one-day conference on the tax treatment of private corporations and their shareholders and, particularly, higher attendance at the annual conference, are the main reasons for the increase.

Our investments continued to produce a portion of the income needed for the support of the foundation's operations. Total investment income amounted to \$384,000, up by \$24,000 from the 1985 figure. The foundation's investments are under the supervision of the investment committee and consist of government obligations and money market funds.

We express our gratitude to the International Fiscal Association for the contribution of \$19,000, which was expended to increase the library holdings of international tax materials.

Expenditures rose by \$227,000, the main increases being for conference expenses, rent, publications, and compensation to about a dozen freelance editors who were engaged to expedite publication of the report of the proceedings of the 1985 annual conference. They were successful in helping to produce the longest report ever - over 1,400 pages - more than two months earlier than in the previous year. Library expenses were also up, reflecting the acquisition of international tax materials with the IFA grant.

The net result of the year's activities was a favourable margin of revenue over expenditure in the amount of \$434,000 in the operating fund.

In the board-designated research endowment fund, whose purpose is to generate the revenues necessary to support our program of commissioned research projects, a deficit of nearly \$40,000 was incurred, compared with a surplus of \$91,000 in 1985. A transfer from the operating fund covered the shortfall. Deferral of the completion of certain projects from 1985 to 1986 accounted for both the surplus and the deficit. Wide swings can be expected in the financial results of the fund, subject as they are to fluctuations in interest rates on the revenue side and the uncertainties that attend progress with research projects on the expenditure side.

Several monographs are approaching completion. Accordingly, we can expect substantial expenditures to be borne by the fund in the current year. Also, as is noted in the financial statements, the foundation has a commitment of \$650,000 for the future production of various publications.

We have continued to invest in modern technology and are continually upgrading it. The computers, software programs, and printers have greatly enhanced the work of the research staff and improved our system of accounting, controls, and internal reports. The software that has been developed for our conference administration is state of the art and saves scores of hours of clerical work and paper shuffling. Since last August, all new library acquisitions have been catalogued in the computer. Print-outs are available to users of the library. The existing card catalogue is being computerized on specially designed software, a process that may take up to two years to complete. The ultimate objective is not only to assist those who come to the foundation offices to use the library but also to enable members to access the catalogue from their offices across the country with the aid of personal computers.

The acquisition of a new high-speed photocopier enabled us for the first time to print in-house hundreds of copies of annual conference papers to meet members' requests, at an estimated saving of \$25,000.

Our budget for the current year makes provision for additional purchases of equipment and software to achieve economies and efficiencies in our various operations. Substantial expense will also be incurred as a result of opening an office of the foundation in Montreal, about which I shall say more in a moment.

Conferences

Conferences are a major aspect of foundation activities and have long been a forum for the presentation of different viewpoints on all manner of tax issues. We believe that by fostering free trade in ideas, we can only serve to enhance the Canadian tax system. The success of the annual conference, which was held in Toronto in November, is a matter of record. Eighteen hundred members were in attendance to hear nearly 60 eminent authorities from government, business, the professions, and the universities examine and evaluate recent developments and current issues in taxation, including the proposed federal tax reform. The opening plenary session was devoted to this subject and the Honourable Michael H. Wilson, minister of finance, outlined the objectives and main elements of the tax reform initiative in his banquet address.

The 1986 Corporate Management Tax Conference, the twenty-third in this series of meetings designed primarily for our corporate members and their advisers, was held in Toronto in June and had as its theme the topical subject of income tax considerations in corporate financing. We were pleased to have as the luncheon speakers the Honourable Robert F. Nixon, treasurer and minister of economics of the government of Ontario, and G. Chris Andersen, managing director of Drexel Burnham Lambert Incorporated. The report of the proceedings constitutes a unique collection of papers on a subject of broad interest to the business community.

Income tax amendments introduced in 1985 and 1986 had far-reaching implications for private corporations and their shareholders. A special one-day conference was convened in Toronto in May to analyze the new measures. We regret that we were unable to accommodate all who wished to attend. The papers delivered at the conference were updated and presented at the annual conference and, again, the sessions attracted large audiences.

As for the regional conference program, the Prairie Provinces Tax Conference was held in Winnipeg for the fifth time since the inception of this event in 1975. The British Columbia Tax Conference was held in May in Vancouver. Our two French language conferences, Journées d'études fiscales and Colloque sur la gestion fiscale, were held in Montreal in June and September, respectively. The Atlantic Provinces Tax Conference, held in October in Halifax, was jointly sponsored by Dalhousie University.

For the current year, our conference program is shaping up to be a busy one. The initial conference was the Prairie Provinces Tax Conference, held in Calgary in February. The British Columbia Tax Conference has been postponed until September, in anticipation of having the

tax reform discussion paper available for consideration. The theme of this year's Corporate Management Tax Conference, to be held in Toronto in June, is "Income Tax Aspects of Measuring Business Income." The Journées d'études fiscales is scheduled for June and the Colloque, for September. The Atlantic Provinces Tax Conference will be co-sponsored by St. Mary's University. Details of dates and place will be announced in due course.

Finally, let me remind you that the 1987 annual conference will be held in Montreal on November 23-25. The tax reform discussion paper is likely to be a main focus of attention.

Opening an Office in Quebec

Quebec, it has often been said, is not a province like the others. This observation is true with respect to tax matters, not only because Quebec alone imposes and collects its own personal income tax but, particularly, because the vast majority of the tax community prefer to conduct their affairs in French: the members of legal and accounting professions, government officials, corporate tax officers, and academics.

The foundation has long carried on some of its activities in French. In the conference field, the first Journées d'études fiscales was held in 1964. A second annual French-language conference, the Colloque sur la gestion fiscale, was initiated in 1984. As for publications, several journal articles and annual conference papers have been published in French. Commencing with the May-June 1985 issue of the journal, a précis in French and English is published for each major article.

We are undertaking a number of additional measures to expand foundation services to francophone members. Commencing with the January-February 1987 issue, the format of the Canadian Tax Journal/Revue fiscale canadienne has been altered to reflect its bilingual nature, as the director will explain in more detail. Also, we are seeking Quebec tax professionals and scholars to undertake commissioned research projects, the results of which would be published as monographs in French.

Currently the foundation is making arrangements to open an office in Montreal and staff it appropriately. The office will be in the Maison du Barreau, the building which houses the Quebec Bar Association. We are seeking a representative to assume responsibility for the office and perform multifarious functions, including the organization of conferences; the solicitation of individual and corporate memberships; the dissemination of information about the foundation to universities, business groups, professional organizations, and the media; and possibly the editing of French manuscripts.

In this way, we nourish the hope that the foundation's contribution to the francophone tax community will be greatly enhanced.

Visitors

Students enrolled in the international tax program at Harvard University paid their annual visit to the foundation in May. In addition to learning about the organization and operation of the foundation, they participated in a discussion of retail sales tax with a representative of the Ontario Department of Revenue. Most of the students are officials in revenue departments of developing countries.

Other visitors included Joseph A. Pechman of The Brookings Institution in Washington, D.C., who was writing a comparative study of tax reform in a number of developed countries, and Professor Cedric Sandford of the Centre for Fiscal Studies at the University of Bath, who was preparing a retrospective on the Carter report.

Changes in the Board of Governors

There will be a substantial changing of the guard in the membership of the board of governors. The retiring governors this year are as follows:

L.J.D. Batten	Saskatoon
Marcel Bertrand, CA	Montreal
Helmut Birk, FCA	Montreal
Gérard Coulombe	Montreal
A.B. Davidson	Vancouver
H.L. Doane, FCA	Halifax
Leonard Eisen, FCA	Toronto
G.W. Flynn, CA	Edmonton
L.H. Hergott, CA	Saskatoon
R.T. Neville, FCA	Toronto
Marc Noël	Montreal
A.K. Scales, QC	Charlottetown
Ian Scobell, CA	Vancouver

These men take with them the sincere appreciation of the foundation for their considerable efforts on its behalf during their terms of office.

I know I am voicing the opinion of all members when I express a special word of tribute to Larry Doane, FCA, who retires as past chairman. He brought to his duties a lifetime of experience as a CA and a tax professional and guided the board ably in its oversight responsibilities. We are grateful for his wise counsel and

the generosity of spirit he demonstrated in all of his dealings with the foundation. We are delighted that Larry will be a member of the advisory committee of past chairmen.

The new governors to be elected for the coming year have been nominated by the president of the Canadian Bar Association and the president of the Canadian Institute of Chartered Accountants under the provisons of the by-laws. I should like to welcome them and introduce them to you:

D.W. Beaubier, QC	Saskatoon
Robert Couzin	Toronto
Guy Dubé	Montreal
Keith Fowler, CA	Edmonton
J.R. Grossman, CA	Regina
Wilfrid Lefebvre, QC	Montreal
André Lesage, FCA	Montreal
L.C. McKenzie, CA	Halifax
C.A. Poissant, FCA	Montreal
I.L. Rosen, FCA	Toronto
Alastair Skinner, FCA	Toronto
W.C. Turnbull, QC	Saint John
Ron Walsh, CA	Vancouver

Conclusion

For over 40 years the foundation has played a unique role in research and education in taxation and public finance. The future holds promise of continued dynamic change in these fields, as we are confronted by new and pressing problems. For one thing, government spending continues at a high level, and efforts to control the deficit, which have subordinated many other issues, have not yet achieved their objective. Much work remains to be done in the field of government spending. Another major item on the national agenda is a fundamental restructuring of the federal tax system. It is still uncertain what measures will emerge from the crucible of tax reform. Whatever they are, they will require exhaustive explanation, examination, and evaluation and, in this respect, the foundation, through its research, publications, and conferences, can perform an invaluable service to the professions, the business and academic communities, the government, and the public at large.

I wish in closing to express my appreciation of the privilege of serving as chairman of the foundation and my gratitude for the encouragement, collaboration, and friendship of the officers, the governors, the staff, and a large proportion of the membership. I know that the new officers and governors will meet the challenge of the coming year and I wish them every success in their endeavours.

I now move, seconded by David Timbrell, FCA, the following resolution - namely, that this report of the foundation for the fiscal year ending December 31, 1986 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.

Robert B. Goodwin
Chairman
April 28, 1987

REPORT OF THE DIRECTOR
TO THE FORTY-FIRST ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION

April 28, 1987

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

For four decades the foundation has engaged in research and public education across a broad range of tax and public finance issues. The premise that underlies our research and publication activities is that one must have something to say, then say it effectively, and disseminate it widely.

For a project to be included on our research agenda, it must address a significant issue in the field of taxation or government spending and there must be competent research talent available to undertake it. This requirement is often the rock on which proposed research projects founder. The foundation has the ultimate responsibility for the projects and the sole discretion as to whether to publish the resulting manuscript.

As I shall point out in a moment, the projects recently completed or underway involve a diversity of approaches, including individual authors, research teams and, on occasion, research seminars and conferences.

The research program aspires to generate informed analysis, evaluation, and explanation, and to produce products of lasting value, although in a field as dynamic as taxation, this is sometimes a forlorn hope. Our objective, of course, is to engage the interest of a wide range of users: the members of the professions, industry, government, academe, and the concerned public. It is a tall order, but the foundation has a long track record of success in the area of research.

As for our publications program, it is perhaps trite to say that publication is an essential part of the research process. If new information generated through research and analysis is to be of maximum use, it must be

widely disseminated - to policy makers, practitioners, and the general public. It will be of interest to our members to know that our publications are now going to over 40 foreign countries and that our mailing list exceeds 10,000 persons.

Let me now be more specific.

The Canadian Tax Journal, now in its thirty-fifth year, has long since achieved the status as the premier Canadian publication specializing in taxation and public finance. As a matter of editorial policy, an effort is made to include in the journal articles and features that have an appeal to the wide range of interests represented in our heterogeneous membership. The result is a very broad coverage of fiscal affairs in this thriving periodical. Ten years ago the journal ran to about 700 pages; five years ago, to nearly 1,000 pages; and in 1986, to over 1,600 pages.

Responsibility for preparation of one of the nine features in the journal has undergone a change. After seven years of exemplary service, Paul O. Gratias, CA, of Clarkson Gordon, has relinquished his position as co-editor (with W.E. Crawford, FCA) of the feature Personal Tax Planning. We express our deep appreciation to him and welcome his successor, Alan M. Dewling, CA, also of Clarkson Gordon.

As the chairman mentioned, the format of the journal has undergone a number of changes to reflect its bilingual character. Members will note that, commencing with the January-February 1987 issue, the cover has been redesigned and a French title adopted (*Revue fiscale canadienne*), and that explanatory material about the journal and other incidental changes are presented in both French and English. The précis that precedes each article is also prepared in both languages. It is our objective to have at least one original French language article in each issue. Our purpose, of course, is to enhance the service we provide to our francophone members.

The thirty-second consecutive edition of The National Finances, our annual analysis of the federal government's revenues and expenditures, was distributed to members last August. 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.

Copies were sent to all members of the House of Commons in the hope that they would find this compendium of information to be of assistance as they faced the difficult tasks of evaluating options for tax reform and developing

appropriate policies with respect to expenditure restraint and deficit reduction. We were gratified by the letters of acknowledgment that we received, especially one from a member of the cabinet, who wrote: "For twenty years I've relied on this document; as Minister, more so than ever! Well done."

The computerization of many aspects of the production of The National Finances has enabled us to advance by several months the publication of the 1987 edition, which is in press and will be in the hands of members next month. It outlines the background to the coming federal tax reform and incorporates into the relevant expenditure chapters summaries of the reports of the Nielsen task force on program review and the federal government's account of the cost of selected tax expenditures. Copies will again be distributed to all members of Parliament.

Our biennial Provincial and Municipal Finances, which analyzes the revenues and expenditures of provincial and local governments, was issued last May. The next edition will be published later this year. In the meantime, with a view to keeping readers informed in a timely way on current provincial budgets, the research staff is preparing articles for publication in the journal that will deal with 1987 provincial budgets as they are brought down. The first article, covering the budgets of British Columbia, Alberta, Manitoba, Nova Scotia, and Prince Edward Island, will appear in the March-April issue.

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 1985 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.

To make the wealth of information contained in the foundation's extensive literature readily accessible and therefore more useful, the foundation has published three cumulative indexes, the most recent of which was issued in February. It consolidates 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. Supplements will be issued annually and consolidated again in five years. An otherwise arduous task is greatly facilitated through use of a computer.

Four monographs were issued last year. The Retail Sales Tax in Canada, by A.J. Robinson, provides a thorough analysis of a major source of provincial revenue.

The volume is the first foundation publication on the subject of retail sales tax since Professor John Due's book, Provincial Sales Taxes, in 1964.

Brian J. Arnold's treatise, The Taxation of Controlled Foreign Corporations: An International Comparison, 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 author's analysis of the specific provisions enacted in the six countries to deal with the problem of tax haven abuse provides the foundation for a critique of the Canadian legislation in respect of foreign accrual property income and foreign affiliates and the formulation of several suggestions for improving existing tax laws in this area.

The tax memo entitled Unfinished Business: The Great Trade Debate; Defence - The Continuing Dilemma, by J. Harvey Perry, deals with two issues of great topical interest - Canada's trade negotiations and the always crucial question of this country's defence role. The author traces events in both areas over the past four decades and provides essential background for understanding current developments. The discussion of these subjects has been taken from a third volume of Mr. Perry's history of Canadian fiscal developments, Taxes, Tariffs, and Subsidies, which is in preparation.

The sixth volume in the foundation's eight-volume series on financing Canadian federation was published last April. It is Federal Finance in Comparative 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. Professor Bird's 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 seventh study in this series will be published later this year. The Financing of Canadian Federation, by David B. Perry, details the evolution of federal-provincial fiscal arrangements up to 1986. It examines the growth of federal grants to the provinces and the development of three distinctly different aspects of federal-provincial fiscal relations: equalization, tax rental and sharing, and conditional grants and specific purpose transfers. An extensive statistical appendix provides information on the payments to the provinces under the various arrangements.

The last study in this 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.

Several other projects are currently underway.

At a time when the revision of Canada's pension laws is a major focus of public attention, the study, Social Security in Canada: An Economic Appraisal, by John B. Burbidge of the Department of Economics at McMaster University, will be of broad interest. It presents an economic analysis and assessment of current and proposed reforms of social security programs in Canada, including old age security, the guaranteed income supplement, and the Canada and Quebec pension plans.

The taxation of income returns to capital is one of the most controversial elements of the tax structure. In a monograph that will soon be in press, Taxes on Capital Income in Canada: Analysis and Policy, the authors, Robin W. Broadway, Jack M. Mintz, and Neil Bruce, examine 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 a reform of both corporate and personal income taxes. It is a particularly timely work in the light of the current proposals for major tax reform.

Douglas G. Hartle's thorough revision of an earlier foundation study, The Expenditure Budget Process of the Government of Canada, is being edited for publication. 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.J. 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. These provisions operate at virtually every stage of the calculation of the tax payable. The study will identify the discriminatory aspects of the Canadian income tax system; then it will isolate, from more detailed analysis, a number of specific provisions clearly intended to regulate the Canadian cultural identity; and, finally, it will examine the rules of domestic and international law concerning discrimination.

A subject of widespread interest to members of the Canadian business community and their professional advisers is the tax treatment of interest, both the income side and the deduction side. A study of this area is appropriate at the present time for a number of reasons. First, interest deductibility is a matter of deep concern to taxpayers and to the departments of National Revenue and Finance, particularly in the light of the Supreme Court of Canada decision in the Bronfman Trust case. Second, the new accrual rules have not been subject to any detailed scrutiny since their introduction. Third, there has been very little research and writing from a tax policy perspective on the tax treatment of interest under Canadian law.

The tax treatment of interest is thus an important issue confronting the Canadian tax system at the present time. This 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, FCA, of the Faculty of Law at The University of Western Ontario. At the foundation's request, Professor McNair has concentrated his efforts in recent months on the issue of restrictions on the deductibility of interest and has prepared an article on the subject for publication in the May-June issue of the Canadian Tax Journal.

Professor François Vaillancourt of the Department of Economics at the University of Montreal is making good progress with his study, which involves an examination of both the administrative costs to government in collecting personal and corporate taxes and the costs to firms and

individuals in complying with these taxes. Last spring, some 2,000 questionnaires were submitted to Canadian adults who were asked about the expenses they incurred in completing their returns, the amount of time they spent doing so, and so on. The data have been compiled and analyzed. Last month, nearly 400 questionnaires were received from Canadian businesses that provided similar data. The study will illuminate these important aspects of the Canadian tax system.

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 complete a first draft of their study, "Oil and Gas in Canada: The Impact of Policies and World Events." The introduction of the Western Accord, the moves to de-regulate 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 been laid to rest. The project looks back at the evolution and the impact of world events and policy changes on the Canadian oil and gas industry (with special emphasis on the post-1973 period), and gleans some of the lessons that this episode should have taught us about the conduct of energy policy.

Several research proposals are under consideration. The decision as to whether to proceed with them will depend in part on the content of the forthcoming tax reform discussion paper.

Staff

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

Arthur W. Berry, CA, retired last July after three years of productive service as membership secretary and treasurer. To him fell the responsibilities of keeping in touch with our members, providing efficient and prudent management of our financial affairs, and overseeing the automation of our membership and accounting records. He discharged those duties with dedication and enthusiasm.

His successor is Norman H. Witherell, CA. Mr. Witherell brings to the position extensive experience, having held senior financial positions with a number of major Canadian corporations, including Traders Group Limited, Richardson Greenshields of Canada Limited, and Falconbridge Limited.

Ruth Cornish, supervisor of membership records, retired on January 30, after seven years of service. She will continue to provide assistance in membership affairs on a part-time basis.

Diana Ezewski has been appointed Mrs. Cornish's successor. Since October 1985, Ms Ezewski has been the assistant librarian. Her familiarity with, and aptitude for, computerized systems have facilitated the transition.

Zsuzsanna Adlington joined the staff in February 1987 as assistant librarian.

Margaret Goldup, who joined the membership department as secretary on a part-time basis in 1979, retired at the end of February.

We extend our thanks and best wishes for happiness in retirement to our former colleagues and look forward to a long and fruitful relationship with the new members of the staff.

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

Laurel Amalia bears responsibility for the editing of our growing body of publications. She not only edits but also supervises a number of freelance editors, and deals with various printers in seeing our growing output of publications through to completion.

The duties of Alysa Neal, reference editor, include verifying the myriad footnotes and other references that appear in profusion in the foundation's numerous publications.

Bruce Clarke not only assists the treasurer but also serves as manager of publications distribution.

Responsibility for the foundation's collection of public finance materials rests with the librarian, Ron MacLeod, and his assistant Zsuzsanna Adlington. As the chairman pointed out, one of the challenges in the immediate future is the computerization of the library collection.

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

The work of the secretarial staff is indispensable to the success of our activities, and I am pleased to acknowledge the capable help of Vera Bradley, Astrid Elkins, Wendy Hughson, Pat Hunt, and Anne McAlonen.

I welcome the opportunity afforded me at the annual general meeting to express publicly my thanks to all of them for their cooperation and help. They are an asset more valuable and important than those found on any balance sheet. They constitute a resource that can defy depletion and depreciation if properly attended to and nurtured.

Finally, on behalf of the staff, I wish to thank our members in all parts of the country for their support and 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 28, 1987

