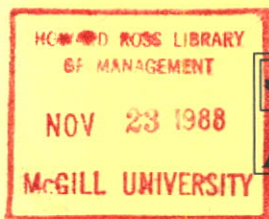
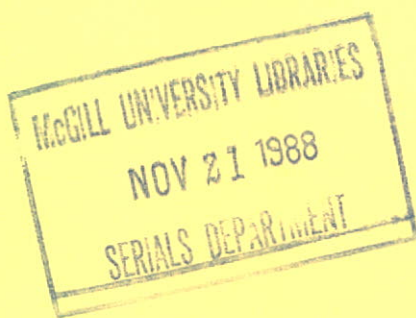


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Forty-Second Annual Report

*For the Year Ending
December 31, 1987*



Canadian Tax Foundation
L'Association Canadienne
d'Études Fiscales

Forty-Second Annual Report

*For the Year Ending
December 31, 1987*



Canadian Tax Foundation

L'Association Canadienne
d'Études Fiscales

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

CANADIAN TAX FOUNDATION

L'Association Canadienne d'Études Fiscales

THE BOARD OF GOVERNORS

Elected April 28, 1988

D.W. Beaubier, QC	Saskatoon
R.A. Brown, CA	Calgary
Robert Couzin	Toronto
W.E. Crawford, FCA	Toronto
Guy Dubé	Montreal
* D.S. Ewens	Calgary
C.M. Fien	Winnipeg
J.C. Finkbeiner, CA	Vancouver
Keith Fowler, CA	Edmonton
J.E. Gover, CA	St. John's
J.R. Grossman, CA	Regina
K.W. Grower, CA	Winnipeg
S.S. Heller	Montreal
J.B. Katchen, QC	Calgary
E.G. Kroft	Vancouver
Alain Lamanque, CA	Montreal
Michel Lanteigne, CA	Montreal
* Wilfrid Lefebvre, QC	Montreal
* André Lesage, FCA	Montreal
Pierre Lessard	Montreal
* R.F. Lindsay, QC	Toronto
R.B. MacLellan	Truro
* L.C. McKenzie, CA	Halifax
D.B. Orsborn, CA	St. John's
C.A. Poissant, FCA	Montreal
R.T. Rocchi	Toronto
* I.L. Rosen, FCA	Toronto
Alastair Skinner, FCA	Toronto
P.M. Stevens, FCA	Moncton
* P.N. Thorsteinsson, QC	Vancouver
* D.Y. Timbrell, FCA	Toronto
W.S. Turnbull, QC	Saint John
Ron Walsh, CA	Vancouver
D.A. Ward, QC	Toronto

* Executive Committee of the Board of Governors

OFFICERS

P.N. Thorsteinsson, QC, *Chairman*
André Lesage, FCA, *Vice-Chairman and Chairman
of the Executive Committee*
R.F. Lindsay, QC, *Vice-Chairman*
D.Y. Timbrell, FCA, *Past Chairman*
D.J. Sherbaniuk, QC, *Director*
N.H. Witherell, CA, *Treasurer*
P.A. Hillmer, *Secretary*

PAST CHAIRMEN

- M.L. Gordon, KC (deceased)
G.R. Munnoch, KC (deceased)
J.G. Glassco, FCA (deceased)
W.G.H. Jephcott, FCA (deceased)
C.S. Richardson, QC (deceased)
K. LeM. Carter, FCA (deceased)
Lazarus Phillips, QC (deceased)
* T.A.M. Hutchinson, FCA, Toronto
R. DeW. MacKay, QC (deceased)
J.A. Wilson, FCA, Toronto
M.G. Teed, QC (deceased)
* A.W. Hamilton, CA, Montreal
H.F. White, QC (deceased)
C.W. Leach, CA (deceased)
* S.D. Thom, QC, Toronto
* A.J. Little, FCA, Toronto
J. DeM. Marler, QC (deceased)
* A.D. Russell, CA, Vancouver
A.S. Pattilo, QC (deceased)
* L.J. Smith, FCA, Toronto
P.F. Vineberg, QC (deceased)
* H.M. Caron, CA, Montreal
* J.M. Godfrey, QC, Toronto
R.B. Dale-Harris, FCA (deceased)
* Roger Letourneau, QC, Quebec
* F.T. Denis, CA, Montreal
* W.E.P. DeRoche, QC, Toronto
* D.J. Kelsey, FCA, Vancouver
R.H.E. Walker, QC (deceased)
* Kerr Gibson, FCA, Toronto
* J.H.C. Clarry, QC, Toronto
* Jacques Raymond, CA, Montreal
* G.T. Tamaki, QC, Toronto
* W.E. Goodlet, FCA, Toronto
* S.E. Edwards, QC, Toronto
* Charles Pelletier, CA, Quebec
* Hon. J.C. Couture, Ottawa
* G.W. Riehl, FCA, Toronto
* J.S. Palmer, QC, Calgary
* H.L. Doane, FCA, Halifax
* R.B. Goodwin, Winnipeg

* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1987

ASSETS		1987	1986
OPERATING FUND			
CURRENT ASSETS			
Cash and marketable securities (note 2)		\$1,749,000	\$1,985,861
Accrued interest and accounts receivable		202,841	78,575
		<u>1,951,841</u>	<u>2,064,436</u>
FIXED ASSETS			
Computers, furniture and office equipment		304,789	243,945
Leasehold improvements		90,400	90,400
Library books and publications		1	1
		<u>395,190</u>	<u>334,346</u>
Accumulated depreciation and amortization		<u>248,066</u>	<u>191,374</u>
		147,124	142,972
RESEARCH ENDOWMENT FUNDS (note 2)			
Investments		3,086,126	2,394,618
		<u>5,185,091</u>	<u>4,602,026</u>
LIABILITIES			
OPERATING FUND			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		291,807	260,822
Deferred revenue — subscriptions		566,376	532,802
		<u>858,183</u>	<u>793,624</u>
BALANCE OF FUNDS			
OPERATING FUND		1,240,782	1,413,784
RESEARCH ENDOWMENT FUNDS			
Board-designated		3,077,728	2,391,560
Donor-designated		8,398	3,058
		<u>3,086,126</u>	<u>2,394,618</u>
		<u>5,185,091</u>	<u>4,602,026</u>

Approved on behalf of the Board of Governors:

D. Y. Timbrell, FCA
Chairman

P. N. Thorsteinsson, QC
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1987

REVENUE	1987	1986
Subscriptions:		
Individual	\$ 847,464	\$ 809,627
Corporate	<u>272,367</u>	<u>256,534</u>
	1,119,831	1,066,161
Conference revenue	1,518,025	1,342,198
Investment income	151,921	174,614
Publication sales	78,254	63,720
Grant from International Fiscal Association	<u>10,676</u>	<u>19,422</u>
	2,878,707	2,666,115
EXPENDITURE		
Conference expenses	758,668	678,931
Research salaries	448,238	439,803
Rent	303,226	284,245
Publications	303,606	247,625
Administration salaries	185,440	192,245
Annual general meeting	32,819	39,133
Depreciation and amortization expense	56,692	45,451
Employee benefits	136,179	90,479
General office expense	76,972	44,522
Montreal office expense	20,253	—
Library books and periodicals	73,402	66,983
Office printing, stationery and supplies	26,513	31,514
Postage and courier	39,843	40,763
Professional fees	11,151	6,550
Telephone and communications	13,038	12,676
Travelling — staff	1,990	1,480
— board	<u>13,679</u>	<u>9,572</u>
	2,501,709	2,231,972
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR ..	<u>\$ 376,998</u>	<u>\$ 434,143</u>

CANADIAN TAX FOUNDATION

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1987

	1987	1986
BOARD DESIGNATED FUNDS		
REVENUE		
Investment income	\$ 245,765	\$ 208,981
EXPENDITURE		
Authors' fees and expenses	59,392	161,235
Editing and review of manuscripts	20,625	32,651
Typesetting	13,878	22,238
Printing	11,939	26,968
Postage and handling	3,763	5,161
	<u>109,597</u>	<u>248,253</u>
EXCESS OF REVENUE OVER EXPENDITURE		
(EXPENDITURE OVER REVENUE) FOR THE YEAR	<u>136,168</u>	<u>(39,272)</u>
DONOR-DESIGNATED FUNDS		
REVENUE		
Donations	5,000	1,000
Investment income	340	194
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 5,340</u>	<u>\$ 1,194</u>

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1987

	1987	1986
OPERATING FUND		
Balance at beginning of year	\$1,413,784	\$1,268,913
Excess of revenue over expenditure for the year	376,998	434,143
	<u>1,790,782</u>	<u>1,703,056</u>
Transfers to board-designated research endowment fund		
— board transfer	(550,000)	(250,000)
— current year's excess of expenditure over revenue	—	(39,272)
Balance at end of year	<u>1,240,782</u>	<u>1,413,784</u>
RESEARCH ENDOWMENT FUNDS		
BOARD DESIGNATED		
Balance at beginning of year	2,391,560	2,141,560
Transfer from operating fund	550,000	250,000
	<u>2,941,560</u>	<u>2,391,560</u>
Excess of (expenditure over revenue) revenue over expenditure for the year	136,168	(39,272)
Transfer from operating fund — amount equal to excess of expenditure over revenue	—	39,272
Balance at end of year	<u>3,077,728</u>	<u>2,391,560</u>
DONOR DESIGNATED		
Balance at beginning of year	3,058	1,864
Excess of revenue over expenditure for the year	5,340	1,194
Balance at end of year	<u>\$ 8,398</u>	<u>\$ 3,058</u>

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1987

OPERATING ACTIVITIES	1987	1986
Excess of operating fund revenue over expenditure for the year	\$ 376,998	\$ 434,143
Item not involving cash		
— amortization and depreciation	56,692	45,451
Net change in non-cash working capital balances related to operations	(59,707)	42,689
	<u>373,983</u>	<u>522,283</u>
INVESTING ACTIVITIES		
Acquisition of fixed assets	(60,844)	(30,175)
Transfers of funds to Research Endowment Funds	(550,000)	(289,272)
	<u>(610,844)</u>	<u>(319,447)</u>
CHANGE IN CASH AND CASH EQUIVALENT	(236,861)	202,836
CASH AND CASH EQUIVALENT — beginning of year	1,985,861	1,783,025
— end of year	<u>\$1,749,000</u>	<u>\$1,985,861</u>
CASH AND CASH EQUIVALENT IS REPRESENTED BY		
Bank balances	2,079	86,065
Short term investments	1,746,921	1,899,796
	<u>\$1,749,000</u>	<u>\$1,985,861</u>

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1987

1. SIGNIFICANT ACCOUNTING POLICIES

Investments

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.

CANADIAN TAX FOUNDATION

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. There was no shortfall in 1987 (1986 — \$39,272).

2. INVESTMENTS

A summary of investments is as follows:

Operating Fund — cash and marketable securities	1987	1986
— short-term		
Cash	\$ 2,079	\$ 86,065
Bankers' acceptances and treasury bills	1,746,921	1,899,796
	<u>1,749,000</u>	<u>1,985,861</u>
Research Endowment Fund		
Short term treasury bills and Government of Canada bonds	3,086,126	1,886,618
Long term Government of Canada bonds	—	508,000
	<u>\$3,086,126</u>	<u>\$2,394,618</u>

3. RESEARCH ENDOWMENT FUND

During the year the Governors authorized the transfer of \$550,000 from the Foundation's Operating Fund to the Board-designated Research Endowment Fund.

4. PENSION COSTS

During the year the Foundation improved pension benefits. As a result of the benefit improvements, an unfunded actuarial liability of \$157,200 was created. This liability was funded partly out of the Funding Excess existing in the plan, and by making payments in 1987. The balance of the unfunded actuarial liability will be funded and expensed in future periods.

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, 1987 the Foundation has commitments of approximately \$530,000 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, 1987 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, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
January 25, 1988

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

REPORT OF THE CHAIRMAN
TO THE FORTY-SECOND ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
APRIL 28, 1988

It is my privilege to present the report of the chairman to the forty-second annual meeting. As I look back at my 41 predecessors, I think virtually all of them would have been able to point to some significant development in the tax field or in the progress of the foundation in which they had been able to play their part — such are the dynamics of the field and of the organization. It has been my fortunate experience to participate in both types of activity — on the one hand to see the foundation respond to the professional challenges posed by tax reform and on the other to have been involved in the establishment of the foundation's offices in the province of Quebec.

I propose to discuss these and certain other events of the past year, and Douglas Sherbaniuk will mention yet others in his report.

Membership and Finance

The foundation continues to rely on individual and corporate memberships as its main source of revenue. Although I can report increased revenue from both categories last year, the increase is due to a rise in the fees. Membership actually fell by 157 individuals and 19 corporations. These are not major reductions — our membership now totals 8,600 individuals and 368 corporations — but in collecting more money from fewer members, we are moving in the wrong direction. An important future task is to reverse the trend. Our efforts here must be based, as in the past, on the enthusiasm of our governors, which we can now better support through market intelligence that we are beginning to gather. By communicating the story of the foundation and its activities to potential supporters, we should be able to restore growth in both categories of membership.

It should also be noted that our revenues were considerably augmented by an increase in the annual subscription of several of our corporate members. It speaks well for our support in the business community that 85 corporations increased their subscriptions by a total of \$25,000. The foundation deeply appreciates these contributions to the resources on which our work depends.

Our conferences, which are the second largest source of income, generated net revenue of \$760,000, an increase of \$97,000 over the previous year. I shall say more about our conferences later.

The third largest income category is investment income, which amounted to \$398,000 in 1987 compared with \$384,000 in 1986. Investments are managed by the treasurer under the supervision of the investment committee.

We extend our thanks to the International Fiscal Association for its contribution of \$10,700, which was expended to increase the library holdings of international tax materials.

Operating expenditures rose by some \$270,000. The main increases were in conference expenses and publications, although inflation is reflected in higher costs in

all phases of our operations. The year ended with a favourable balance of \$377,000 in the operating fund.

Let me now say a word about the board-designated research endowment fund. Its purpose is to provide the resources to support research projects commissioned to experts outside the foundation. The fund assures the foundation of independence and flexibility in the selection and timing of important studies and helps to safeguard the foundation from the stresses and strains of fiscal fluctuations. There may be substantial variations from year to year in the financial results of the fund. In some years, revenue may not be sufficient because of a bunching of published studies. Any shortfall is made up from the operating fund. On the other hand, delays in the completion of studies may result in an excess of revenue over expenditures, as occurred last year in the amount of \$136,000. The foundation presently has commitments of \$530,000 for the future production of various publications.

The donor-designated research endowment fund, which is made up of gifts to the foundation, has grown relatively slowly since its inception in 1981. We were pleased to receive an unsolicited contribution of \$5,000 to the fund last year from the minister of revenue of the government of Quebec to assist in the preparation of a study in French about a Quebec tax subject. An appropriate project has not yet been selected.

During 1987, we continued the automation of several functions in the foundation. The equipment and its proper programming contribute importantly to the efficiencies and economies of time and money which characterize our operations. Improvements have been made in membership and conference administration, library operations, certain research activities, and in our accounting and control systems.

Good progress has been made in transferring information from the card catalogue for the library collection into a computer data base, a process that will take another year to complete. The objective is ultimately to enable members to access the information from their offices in all parts of the country through personal computers.

We are budgeting for a substantial outlay this year for networking the computers in various departments in the foundation. Under consideration is the acquisition of desk top publishing equipment, the cost of which has fallen appreciably in recent years.

Conferences

Tax reform was a mighty spur to our conference programs last year. Owing to a dazzling display of footwork from the foundation's director, it proved possible to hold a conference on the tax reform measures within four days of the publication of the white paper. It drew a standing-room only crowd of 900 (most of them were seated), and was judged a considerable success. We are especially grateful to the speakers, including several from the Department of Finance, for the time and effort they spent in preparing their remarks and the written material that was handed out.

A two-day conference was also held in October to provide a thorough examination of the economic impacts of the tax reform proposals. This conference was of interest not only for its subject matter but also because of the manner in which it brought together academics and practitioners. While most of the papers were prepared by academics, many of the commentators were practitioners, and the discussions that took place between them were of considerable interest. The event was jointly sponsored by the Department of Economics at The University of Western Ontario and the John Deutsch Institute at Queen's University. The proceedings will be published later this year.

The theme of the Corporate Management Tax Conference, the twenty-fourth in this series, was "Income Tax Aspects of Measuring Business Income." As usual, the proceedings were very well received.

The foundation's regional conference program enables members to keep abreast of tax developments on an economical basis. Registrants share the expertise of experienced and able speakers without the cost of long-distance travel and long absences from the office. The Prairie Provinces Tax Conference was held in Calgary in February, the Journées d'études fiscales in Montreal in June, and the Colloque sur la gestion fiscale in Montreal in September. The British Columbia Tax Conference, originally scheduled for May, was postponed to September to permit the inclusion in the program of the white paper proposals. Finally, the Atlantic Provinces Tax Conference, co-sponsored by St. Mary's University, was held in Halifax in September.

The success of the Annual Conference in Montreal last November is a matter of record. The attendance of over 1,800 registrants made it one of our largest conferences ever, and certainly the largest in that city. While there was considerable diversity in the range of subjects discussed, the centre of attention was again the white paper on tax reform.

Seven papers delivered at the conference dealt with various aspects of the tax treatment of private corporations and their shareholders. Because of the interest shown by members in this subject, the foundation, in cooperation with the Quebec Order of Chartered Accountants, has undertaken to produce a series of cassettes based on the papers. The seven participants have prepared appropriate texts in English and French. It is expected that the cassettes will be available for distribution by late spring.

Plans already approved for the current year provide once again for an active conference program. Three events are scheduled for May: the Prairie Provinces Tax Conference in Edmonton, the British Columbia Tax Conference in Vancouver, and a special conference in Toronto to discuss the enormously complex new provisions for tax-assisted retirement savings. The Corporate Management Tax Conference, to be held in Toronto in June, will have as its theme "Income Tax Compliance, Administration, and Enforcement." The Colloque will be held in Montreal in September and the Atlantic Provinces Tax Conference in Halifax under the co-sponsorship of Dalhousie University. And for the first time since 1981, the Annual Conference will be held in Vancouver.

Quebec Office

My predecessor announced at the annual general meeting last April that the foundation was making arrangements to open an office in Quebec and staff it appropriately. I am pleased to report that the office, which is located in the Maison du Barreau, has been in operation since last July, although the official opening was held in October, many good friends and strong supporters attending.

Madame Louise Lapalme, the energetic and capable regional director of the Quebec office, has undertaken numerous tasks during her short tenure: assisting with conference administration, attending to membership matters, installing a complete collection of foundation publications and helping visitors who consult them, visiting universities to inform faculty and students about the foundation, and advising the media and others about our activities. The Quebec governors have been generous in their support of her efforts.

Two weeks ago, the foundation's first déjeuner-causerie was held in Montreal. Over 200 members and federal and Quebec government officials were in attendance to hear the deputy minister of national revenue, Pierre Gravelle, address the audience on current issues confronting Revenue Canada. It is our intention to hold similar luncheon meetings from time to time during the coming year.

Although the premises we now occupy have served us well enough, in July we shall be moving to a somewhat larger, more centrally located office in downtown Montreal where we shall follow up what has been an auspicious beginning to this project.

Board of Governors

The members of the board of governors who will retire this year — 13 in all — are:

D.A.G. Birnie, Vancouver
R.D. Brown, FCA, Toronto
Serge Chevalier, CA, Montreal
O.N. Clarke, Corner Brook
Guy Fortin, Montreal
R.B. Goodwin, Winnipeg
J.M. MacGowan, QC, Halifax
J.G. McCulloch, CA, Vancouver
T.E. McDonnell, QC, Toronto
Victor Peters, Toronto
G.R. Schulli, FCA, Calgary
A.M. Schwartz, QC, Toronto
D.H. Watkins, Calgary

I welcome this opportunity to express to them on your behalf sincere thanks for their interest, helpful cooperation, and strong support of the foundation during their terms of office. We are indebted to all of them for having contributed in so many ways in advancing the interest of the foundation, but I should like to express a special word of appreciation to Robert Goodwin, who retires as past chairman. During his seven years on the board, he made an important contribution to the foundation's governance and we are grateful for his guidance and wise counsel. He has always been unfailing in his dedication and commitment to fostering the development of the foundation.

In accordance with the by-laws, the following people have been nominated for the office of governor by the presidents of the Canadian Institute of Chartered Accountants and the Canadian Bar Association, in consultation with the foundation, to fill the vacancies occasioned by the retirements to which I referred:

R.A. Brown, CA, Calgary
W.E. Crawford, FCA, Toronto
C.M. Fien, Winnipeg
J.C. Finkbeiner, CA, Vancouver
J.B. Katchen, QC, Calgary
E.G. Kroft, Vancouver
Michel Lanteigne, CA, Montreal
Pierre Lessard, Montreal
R.F. Lindsay, QC, Toronto
R.B. MacLellan, Truro
D.B. Orsborn, CA, St. John's
R.T. Rocchi, Toronto
D.A. Ward, QC, Toronto

Mr. Lindsay is returning to the board, having served previously from 1980 to 1983. In the intervening years, he has continued to play an active role in foundation affairs.

This year's annual general meeting is an historic one in that the first woman governor will be elected today. She is Rosanne Rocchi.

My report would not be complete without recording, with deep regret, the deaths of two past chairmen of the board of governors, Philip F. Vineberg, QC, and Robert H.E. Walker, QC. Mr. Vineberg served as chairman in 1966. Many of us had the pleasure of renewing acquaintance with him at the chairman's reception at the Annual Conference on November 22, only two days before his death. Mr. Walker, who was chairman in 1974, died on March 12, 1988 after a lengthy illness. They were long-time friends of the foundation and made important contributions to our work. They will be remembered with gratitude and affection.

Among the many rewards of serving as chairman is association with people of character, judgment, and professional competence of the highest order. They include my fellow governors and the many other friends of the foundation who participated in conferences, served on committees, and helped in so many ways throughout my tenure of office. I express my warmest thanks to all of them.

I now move, seconded by P.N. Thorsteinsson, QC, the following resolution — namely, that this report of the foundation for the fiscal year ending December 31, 1987 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.

D.Y. Timbrell, FCA
Chairman
April 28, 1988

REPORT OF THE DIRECTOR
TO THE FORTY-SECOND ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
APRIL 28, 1988

As the chairman indicated in his opening remarks, it is my pleasant duty to report on the foundation's research and publications during the past year. My responsibility today is a pleasant one, as will become apparent as the details of these programs unfold.

Of cardinal importance among the foundation's activities is research by members of its staff and by outside experts under foundation sponsorship. Tax research is not unlike any other form of organized investigation. It assumes that there are suitable and unsuitable ways of arranging the fiscal structure of a country and of imposing taxes and that these ways may be determined by establishing facts and considering them objectively. It involves the continuous study of tax problems in the light of changes in economic and business conditions and tax laws by persons trained in the relevant principles, policies, laws, and practices. To be effective, such tax research must be carried on independently of both taxpayers and tax authorities.

Before a research project is undertaken, three questions must be addressed:

- 1) Is it practicable? For example, are data available that would permit responsible research to be conducted?
- 2) Are competent personnel available? In some cases an individual could undertake the project and in others a team would be needed.
- 3) What will it cost and will the results be worth it? In certain areas of income taxation, changes have been so rapid in recent years as to render papers and studies obsolete within a matter of months after completion.

The fourth question is determining priorities.

A typical procedure in the case of a substantial project is that the staff is responsible for providing the answers to these questions; the research committee may then consider the project and make recommendations to the executive committee, which will consider them, keeping an eye on the budget. If approved, projects are then assigned to outside workers. Thereafter, the staff keeps in touch with the progress of the work, gives assistance as required, receives the product when it is finished, submits it to referees for review, and then prepares it for publication and sees it through. In all cases where the services of an outside worker are retained, the foundation observes the rule that he has a free hand, and this is made clear when the results are published.

Some of the foundation's projects are accomplished in libraries — that is, by reading and marshalling facts and theories from statutes, royal commission studies, speeches, university theses, official reports, and so on. Others require field work — consultation with practitioners, businessmen, officials at all levels of government, and members of university faculties. But whatever the procedure, the aim is to find out everything possible about the problem and to present those findings in a clear and impartial way.

Let me be more specific about our research and publications program.

The *Canadian Tax Journal/Revue fiscale canadienne*, now in its thirty-sixth year, is perhaps the best known of our publications and is widely read and frequently quoted. Its contents include not only articles on a wide variety of subjects in the field of taxation and public expenditure, but also nine features, which have established themselves as essential reading for all who are interested in the respective subjects they deal with.

With a view to enhancing our service to those who prefer to conduct their affairs in French, each issue of the journal/revue in 1987 contained a substantial article in French. The reaction among francophone members has been overwhelmingly favourable. We shall endeavour to continue the practice.

Articles submitted to the journal/revue have, for several years, been reviewed by one or more outside referees in private practice, the universities, or the business community to ensure that the high standards we have set for our publications are met. Almost invariably the product is better for their efforts. The same procedure has been followed for the French articles. I take this opportunity to express our gratitude for the assistance we have received from the editorial committee in Montreal.

The thirty-third consecutive edition of *The National Finances*, our annual analysis of the federal government's revenues and expenditures, was distributed to members last May, much earlier than is usually the case. The reason was computer-assisted preparation, upon which we continue to rely.

The current issue of our biennial companion piece, *Provincial and Municipal Finances*, was published last week. Provincial and local governments in Canada impose taxes that raise nearly 47 cents out of every tax dollar collected. They also account for over 49 cents of every dollar of public sector expenditures. The 10 provincial and 2 territorial governments, along with nearly 5,000 municipalities that are the creatures of those governments, make up a significant part of government operations and are responsible for many of the services directly received by citizens. The foundation's publication is intended to help those who wish to explore the fiscal aspects of provincial and local government activities in Canada.

One interested foundation member, a former deputy minister of finance, upon receipt of his copy of an earlier edition, wrote to me as follows: "I am delighted to receive in the mail this morning my copy of *Provincial and Municipal Finances 1985*. What a treasure house of data and information is contained in this volume, along with its perceptive analytical structure and detail. I am most impressed with the innovation introduced into the report, and not least of all by the selected municipal statements. Congratulations to everyone connected with the enterprise." The members of the staff responsible for the book were, of course, gratified by this expression of appreciation for their efforts.

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 *1986 Tax Developments*, our annual compilation of tax developments in Canada as reported in the journal/revue feature Checklist. Members who have been trying to keep up to date with the main events in the tax reform saga will find very helpful a recent foundation publication, *Tax Reform 1987*, which summarizes the white paper proposals, the recommendations of the House and Senate committees, and the notice of ways and means motion that was tabled on December 16, 1987.

The supplementary index covering 1986 foundation publications was issued in February. It serves, of course, to make the wealth of material in these volumes more readily accessible.

Three new monographs have been added to our series of tax papers. In *Social Security in Canada: An Economic Appraisal*, Professor John Burbidge discusses an increasingly important issue on the nation's political agenda: how to provide adequate income for a rapidly growing elderly population. The focus of the study is on the federal and provincial public pension system: the Canada and Quebec pension plans, the old age security and guaranteed income supplement programs, and provincial and territorial supplements. One of the main objectives is to present a synopsis of the state of economic knowledge on social security.

The second monograph, by Professors Robin Boadway, Neil Bruce, and Jack Mintz, *Taxes on Capital Income in Canada: Analysis and Policy*, provides a comprehensive examination of the taxation of capital income at both the corporate and personal levels. The authors identify the various ways in which income taxes distort investment decisions, measure such distortions, and quantify the effect of the corporate and personal income tax systems on the structure of investment, financing, and domestic savings available to businesses in Canada. They also present their own program for an equitable, efficient, and less complex tax structure, favouring a full-fledged, consumption-based personal income tax over the present imperfect income tax.

The third study was published earlier this month. It is *The Expenditure Budget Process of the Government of Canada: A Public Choice - Rent-Seeking Perspective* by Douglas G. Hartle. The widespread concern in Canada about the size and persistence of the federal deficit has generated growing interest in the federal expenditure system. The process by which expenditure decisions are made is an important aspect of that system and was the subject of a study by Professor Hartle that was published by the foundation 10 years ago. Since that time, the federal government has introduced numerous and far-reaching organization and procedural changes that have made the study outdated. Hence the need for a comprehensive, up-to-date examination of the greatly changed, and still evolving, expenditure budget process. This volume has attempted to fill that void. What is novel and illuminating about the study is the author's examination of the process from the public choice perspective of "rent seeking" or self-interest on the part of the main participants: politicians, bureaucrats, special interest groups, and the media.

Two studies remain in the foundation's eight-volume series on financing Canadian federation. The first, by David B. Perry, is *Financing of Canadian Federation*, which is in the publication process. The second, by Ernest H. Smith, is *Federal/Provincial Tax Sharing and Centralized Tax Collection in Canada*, which is expected to be completed next year.

Several other projects are currently underway.

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 has completed a comprehensive study of Canadian health care and its financial implications for the federal and provincial governments.

Professor François Vaillancourt has completed a first draft of his study of the administrative costs to government in collecting the personal income tax and the costs to firms and individuals in complying with this tax. The data were derived from some 2,000 questionnaires that 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. Nearly 400 questionnaires were received from Canadian

businesses that provided information on compliance costs. The study illuminates these important aspects of the Canadian tax system.

A team made up of John Helliwell, Mary MacGregor, André Plourde, and Robert McRae has completed a major study of the petroleum industry, *Oil and Gas in Canada: The Effects of Domestic Policies and World Events*. The introduction of the Western Accord, the moves to de-regulate natural gas markets in Canada, and the 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 at the evolution of 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. We look to publication of this study in the late fall.

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 project that is being pursued by Brian J. Arnold 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 calculation of the tax payable. The study will identify the discriminatory aspects of the Canadian income tax system; then it will isolate, for 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. An amendment to the Income Tax Act, following in the wake of the *Bronfman Trust* decision, is expected this year. 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 taxation 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. Substantial progress has been made by the principal researcher, D. Keith McNair, FCA, of the Faculty of Law at The University of Western Ontario. Professor McNair is leaving the university to return to private practice and, although he wishes to retain some involvement in the project, he is relinquishing primary responsibility for it. A replacement for him is being sought.

In his classic two-volume work, *Taxes, Tariffs, and 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. Two chapters dealing with subjects currently high on the public agenda — free trade and national defence — were published in 1986.

Thomas A. Wilson and Peter Dungan are proceeding with their study, *Evaluating Fiscal Policy in Canada*. The purpose of this project is to develop a consistent framework for the analysis of fiscal policy and to analyze recent Canadian policy within that framework. Also, once the analytical framework is established, it would be a relatively straightforward matter in the future to produce analyses of the impact of budgetary policies shortly after budgets appear. A chapter discussing macroeconomic effects of tax reform in Canada was published in the January/February 1988 issue of the journal/revue.

Two new studies were commenced recently. John Whalley is preparing a monograph that will give background information on the issues surrounding sales tax reform in the light of the proposals in the white paper and provide an assessment of the various options available to replace the present sales tax.

The second project focuses on the tax aspects of the transfer of technology to Pacific Rim countries. It will examine the tax issues associated with the transfer of patents, trademarks, copyright, and know-how, as well as technical services fees and charges. The author, Catherine A. Brown, is currently in southeast Asia collecting relevant data on the tax laws of China, Indonesia, Thailand, Malaysia, Singapore, Hong Kong, and Taiwan.

We continue to consider other topics that have been suggested as appropriate for study by the foundation. As the foregoing review makes clear, we already have a heavy schedule of work underway. Nevertheless, it is important that we maintain a receptive attitude toward new possibilities and we have sought to do so

Staff

There were several departures from the staff and a number of new appointments in 1987 and the early months of this year.

Janet Ballantyne resigned in order to commence a course of study leading to the chartered accountant designation. Alysia Neal, editorial assistant and reference editor, also left to commence a new career. She continues to provide editorial services on a part-time basis. Wendy Hughson, secretary to the foundation's secretary and the editor, left to take a new position. Her successor is Susan Wong. Replacing Zsuzsanna Adlington, library assistant, who resigned in February, is Lyse Kobayashi. Diana Ezewski, manager in the membership department, resigned to make a career change.

Two new members of the research staff are Terry Segal, who has been involved in the production of *Provincial and Municipal Finances* and *The National Finances*, and Deborah Ort, a lawyer who came to us from one of the national accounting firms. She is assisting in the preparation of the journal/revue feature Checklist and was responsible for compiling the summary of tax reform developments to which I referred earlier.

Louise Lapalme was appointed regional director of the Quebec office last July. She is experienced in association work, having served previously as director of the Canadian Association of School Administrators. The chairman has already outlined the variety of tasks that she has assumed.

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

I should now like to say a word about those members of the staff whom I have not yet mentioned. Our experienced research team is David B. Perry, Mary Gurney, and Millie Goodman. Some of the most valuable foundation publications are the product of their efforts. In this year of tax reform, David continues to play a public relations role for the foundation, appearing frequently on television and granting numerous interviews to the press.

Laurel Amalia carries the important responsibility of editing foundation material, particularly the journal/revue and, increasingly, supervising a large corps of editors whose services are indispensable in enabling us to cope with the growing volume of publications. She attends to their production with our printers.

The librarian, Ron MacLeod, is responsible for maintaining our growing collection of tax and public finance material which, I believe, is the most extensive in Canada. Ron is also supervising the computerization of the card catalogue.

On the administrative side, the treasurer, Norm Witherell, has responsibility for maintaining our membership records, which he is in the process of transferring from a manual system to a computer-based system. He attends also to investment of foundation funds and, of course, to the preparation of financial statements.

One of the main duties of Pat Hillmer, the foundation's secretary, is the administration of our expanding conference program. To say that the software for this function is state of the art is not to engage in hyperbole. She is fortunate to have the assistance of Marg Brown, who has demonstrated her competence at many foundation conferences over the years.

Bruce Clarke, assistant to the treasurer, willingly and ably helps all members of the staff. He devotes increasing attention to our growing publications department.

I should like to take this occasion to acknowledge the efficient service of the secretarial staff that is so essential in all our activities — Vera Bradley, Astrid Elkins, Pat Hunt, and Anne McAlonen.

The chairman mentioned in his remarks the advantages of automation that we increasingly enjoy. I cannot emphasize too strongly that all the benefits we can and do derive from technology depend for their effectiveness on the talents and dedication of the members of the staff who do the planning, the writing, the managing, and the operating. As with virtually every lively and healthy organization, people remain the foundation's most valuable resource.

Finally, I know I speak for the whole staff in acknowledging 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 David Timbrell and the other officers and governors. On behalf of the staff, I welcome the new board and pledge to them our best efforts and support.

D.J. Sherbaniuk
Director
April 28, 1988

