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Forty-Seventh Annual Report

*For the Eight Months Ending
August 31, 1992*

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Canadian Tax Foundation

L'Association Canadienne
d'Etudes Fiscales

CANADIAN TAX FOUNDATION
L'Association Canadienne d'Études Fiscales

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(Continued on next page.)

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CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION

As at August 31, 1992 and December 31, 1991 (note 4)

(In Thousands of Dollars)

	Operating Fund		Research Endowment Fund (note 8)		Total	
	August 31, 1992	December 31, 1991	August 31, 1992	December 31, 1991	August 31, 1992	December 31, 1991
ASSETS						
Current assets						
Cash and marketable securities	\$1,268	\$1,731	\$ 919	\$ 372	\$2,187	\$2,103
Accrued interest, accounts receivable and prepaid expenses	129	158	—	—	129	158
	1,397	1,889	919	372	2,316	2,261
Capital assets (note 3)	157	187	—	—	157	187
Provincial and bank mortgage bonds	—	—	3,644	4,107	3,644	4,107
	1,554	2,076	4,563	4,479	6,117	6,555
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities	274	356	—	—	274	356
Deferred revenue	772	707	—	—	772	707
	1,046	1,063	—	—	1,046	1,063
FUND BALANCES						
Fund balances	508	1,013	4,563	4,479	5,071	5,492
	1,554	2,076	4,563	4,479	6,117	6,555

Approved on behalf of the Board of Governors:

Edwin C. Harris, QC
Chair

Glen E. Cronkwright, FCA
Vice-Chair

CANADIAN TAX FOUNDATION

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND BALANCES

Eight months ended August 31, 1992 and twelve months ended December 31, 1991 (note 4)
(In Thousands of Dollars)

	Operating Fund		Research Endowment Fund (note 8)		Total	
	August 31, 1992	December 31, 1991	August 31, 1992	December 31, 1991	August 31, 1992	December 31, 1991
REVENUES						
Subscriptions						
Individual	\$ 781	\$1,112	\$ —	\$ —	\$ 781	\$1,112
Corporate	203	315	—	—	203	315
	<u>984</u>	<u>1,427</u>	<u>—</u>	<u>—</u>	<u>984</u>	<u>1,427</u>
Conference revenue	328	1,381	—	—	328	1,381
Investment income	82	187	256	462	338	649
Publication sales	71	96	—	—	71	96
Other income	56	—	—	—	56	—
Grant from International Fiscal Association	5	5	—	—	5	5
	<u>1,526</u>	<u>3,096</u>	<u>256</u>	<u>462</u>	<u>1,782</u>	<u>3,558</u>
EXPENSES						
Non-refundable GST						
on purchases	45	69	—	—	45	69
Conference expenses	340	837	—	—	340	837
Research salaries	100	125	—	—	100	125
Rent and moving expenses	391	509	—	—	391	509
Publications	476	755	172	294	648	1,049
Administration salaries	137	184	—	—	137	184
Amortization	35	63	—	—	35	63
Employee benefits (note 5)	83	178	—	—	83	178
Toronto office expense	179	263	—	—	179	263
Montreal office expense	66	111	—	—	66	111
Corporate expenses	59	77	—	—	59	77
Library services	120	191	—	—	120	191
	<u>2,031</u>	<u>3,362</u>	<u>172</u>	<u>294</u>	<u>2,203</u>	<u>3,656</u>
Excess (deficiency) of revenues over expenses for the year	(505)	(266)	84	168	(421)	(98)
Fund Balances						
— at beginning of period	1,013	1,279	4,479	4,311	5,492	5,590
— at end of period	<u>\$ 508</u>	<u>\$1,013</u>	<u>\$4,563</u>	<u>\$4,479</u>	<u>\$5,071</u>	<u>\$5,492</u>

CANADIAN TAX FOUNDATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

Eight months ended August 31, 1992 and twelve months ended December 31, 1991 (note 4)
(In Thousands of Dollars)

	August 31, 1992	December 31, 1991
Cash provided by (used for)		
Operating activities		
Excess (deficiency) of revenues over expenses for the period	\$ (421)	\$ (98)
Add back item not requiring a current cash outlay		
Amortization	35	63
Difference between pension expense and amount funded	(16)	-
	<u>(402)</u>	<u>(35)</u>
Changes in the following operational balances		
Accrued interest, accounts receivable and prepaid expenses	45	199
Accounts payable and accrued liabilities	(82)	(190)
Deferred revenue	65	28
	<u>(374)</u>	<u>2</u>
Investing activities		
Acquisition of capital assets	(5)	(78)
Investment in provincial and bank mortgage bonds	463	(2,632)
	<u>458</u>	<u>(2,710)</u>
Increase (decrease) in cash and marketable securities	84	(2,708)
Cash and marketable securities	– at beginning of period	2,103
	– at end of period	\$2,187
	<u>\$2,103</u>	<u>\$2,103</u>

NOTES TO THE FINANCIAL STATEMENTS

Eight months ended August 31, 1992 and twelve months ended December 31, 1991

1. PURPOSE OF THE ORGANIZATION

The Canadian Tax Foundation is a tax education and research organization whose role is:

- to provide a proper forum for the discussion of all manner of problems arising under tax law;
- to study, or sponsor and organize the study of, tax problems;
- to make available to its members and to bring to the attention of the taxing authorities concerned the results of such discussion and study; but
- to maintain neutrality on tax policy issues except for modifications of tax laws that do not provide technically sound means of carrying out government policy decisions.

The Foundation is incorporated under the Corporations Act of Ontario as a non-profit organization without share capital. It is a registered charity within the meaning of the Income Tax Act (Canada) and is exempt from income taxes.

CANADIAN TAX FOUNDATION

2. SIGNIFICANT ACCOUNTING POLICIES

Investments

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

Capital Assets

Capital assets are recorded at cost. Amortization is provided over the estimated useful lives of the assets at the following annual rates on a straight-line basis.

Computer equipment — 20%

Furniture and office equipment — 10%

Library books and publications are stated at a nominal value of \$1,000.

Deferred Revenue

Subscription and conference revenue applicable to future periods is recorded in the accounts as deferred revenue.

Fund Accounting

The Foundation maintains its accounts in accordance with the principles of fund accounting. Resources are classified for accounting and reporting purposes into funds according to the activity or objective specified.

The operating fund accounts for the Foundation's operating activities.

The research endowment fund accounts for the Foundation's research activities. 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 were no shortfalls in 1992 or 1991.

3. CAPITAL ASSETS (in thousands of dollars)

	----- August 31, 1992 -----		December 31, 1991	
	Cost	Accumulated Amortization	Net Value	Net Book Value
Computer equipment	\$310	\$237	\$ 73	\$ 96
Furniture and office equipment	226	143	83	90
Library books and publications	1	—	1	1
	<u>\$537</u>	<u>\$380</u>	<u>\$157</u>	<u>\$187</u>

4. CHANGE OF FISCAL YEAR END

During the year, the Foundation changed its fiscal year end from the last day in December to the last day in August. Thus, the 1992 statements are for the eight month period ended August 31, 1992, while the comparative figures shown are for the twelve month period ended December 31, 1991.

For comparative purposes the financial results for the eight month period ended August 31, 1992 and 1991 are as follows (in thousands of dollars):

CANADIAN TAX FOUNDATION

	August 31, 1992	December 31, 1991	
Revenues			(Unaudited)
Subscriptions	\$ 984	\$ 945	
Conference revenue	328	360	
Investment income	338	434	
Other income	132	68	
	<u>1,782</u>	<u>1,807</u>	
Expenses			
Conference expenses	\$ 340	\$ 351	
Publications	648	670	
Other	1,215	1,130	
	<u>2,203</u>	<u>2,151</u>	
Deficiency of revenues over expenses for the period	<u><u>\$ (421)</u></u>	<u><u>\$ (344)</u></u>	

5. PENSION PLAN

The Foundation maintains a trustee contributory defined benefit pension plan which covers substantially all of its employees. The plan provides for benefits on a career-average earnings basis with periodic upgrades.

The most recent actuarial valuation report was prepared as of January 1, 1992 based on projection of employees' compensation levels to the time of retirement. The December 31, 1991 comparative figures have been changed to reflect the results of the actuarial valuation as of January 1, 1992. This report was used as a base to extrapolate data to August 31, 1992. The present value of the accrued pension benefits and the net assets available to provide for these benefits, at market value, as at August, 31, 1992 is:

	August 31, 1992	December 31, 1991
Pension fund assets	\$1,326,000	\$1,292,000
Accrued pension benefits	<u>1,238,000</u>	<u>1,202,000</u>
Estimated surplus	<u><u>\$ 88,000</u></u>	<u><u>\$ 90,000</u></u>

The pension expense of \$8,498 (1991 — \$78,585) includes the amortization of past service costs and experience gains and losses. These amounts are being amortized on a straight-line basis over three years.

The difference between the pension expense and the funding contributions has been reflected in the balance sheet as a prepaid expense. The amounts recorded are \$16,277 (1991 — \$nil).

CANADIAN TAX FOUNDATION

6. LEASE COMMITMENT

The Foundation has commitments under operating leases for office space. These leases expire at various dates up to 2001 and the basic minimum annual payments for the following five years are as follows:

1993 fiscal year	\$ 388,000
1994	392,000
1995	392,000
1996	434,000
1997	471,000
	<u>\$2,077,000</u>

7. PUBLICATION COMMITMENTS

At August 31, 1992 the Foundation has commitments of approximately \$900,000 for the future production of various publications and tax papers.

8. RESEARCH ENDOWMENT FUNDS (in thousands of dollars)

Research Endowment Funds are represented by:

	Board		Donor		Total	
	Designated	Designated	Designated	Designated	August	December
	August 31, 1992	December 31, 1991	August 31, 1992	December 31, 1991	31, 1992	31, 1991
Revenues						
Investment income	\$ 255	\$ 460	\$ 1	\$ 2	\$ 256	\$ 462
Expenses						
Publications	172	294	—	—	172	294
Excess of revenues over expenses	83	166	1	2	84	168
Fund balances						
— at beginning of period	4,465	4,299	14	12	4,479	4,311
Fund balances — at end of period	<u>\$4,548</u>	<u>\$4,465</u>	<u>\$ 15</u>	<u>\$ 14</u>	<u>\$4,563</u>	<u>\$4,479</u>

CANADIAN TAX FOUNDATION

AUDITORS' REPORT

TO THE BOARD OF GOVERNORS AND MEMBERS,
CANADIAN TAX FOUNDATION/L'ASSOCIATION CANADIENNE
D'ÉTUDES FISCALES

We have audited the statements of financial position of the Canadian Tax Foundation as at August 31, 1992 and December 31, 1991 and the statements of revenues, expenses, changes in fund balances and changes in financial position for the eight months and twelve months then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at August 31, 1992 and December 31, 1991 and the results of its operations and the changes in its financial position for the eight months and twelve months then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
September 15, 1992

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

**REPORT OF THE CHAIR
TO THE FORTY-SEVENTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
NOVEMBER 22, 1992**

I am pleased to present the report of the chair to the 47th annual meeting of the foundation, the second annual meeting to be held in 1992. As I explained earlier in the proceedings today, it is occasioned by the amendments to the foundation's letters patent and bylaws that are intended to implement a decision of the board of governors last April.

It was the view of the board that the annual meeting and the board meeting should be convened in conjunction with the annual conference, which is traditionally held in November and attracts a large number of members from across Canada. The situs of the conference varies from year to year.

The effect of the amendments, copies of which were sent to all members with the notice of annual meeting, is to change the year-end from December 31 to August 31 and to permit annual meetings to be held in all provinces, rather than only in Ontario, as was previously the case.

Eliminating the board meeting in April and supplanting it with regional meetings of governors is expected to enhance foundation activities in all parts of the country and also result in a substantial cost saving.

I shall deal with some of the accomplishments of the foundation to the end of August and the director will discuss others.

Membership and Finance

Individual and corporate members of the foundation are investors in a unique Canadian institution. It is the only national tax research and educational organization in the world that is jointly sponsored by the accounting and legal professions and also enjoys the support of the corporate community. While conference fees, investment income, and publication sales contribute significantly to our operating budget, the support of our members is, and has always been, of paramount importance.

Regrettably, the gradual erosion of members in both categories that we have experienced since the advent of the recession has continued into 1992. Although the decline has not been substantial, our membership record is headed in the wrong direction. At the end of August, individual members totalled 7,848 and corporate supporters, 284. We are taking a number of steps to restore the traditional annual growth pattern that we enjoyed for so long. The governors have been in touch with prospective corporate members to make them more aware of the work being done by the foundation and to encourage them to become corporate subscribers.

I take this occasion to record the foundation's gratitude to Peter E. Held, FCA, the immediate past chair of the Canadian Institute of Chartered Accountants, who, last September, wrote to some 13,000 chartered accountants who had expressed an interest in taxation, commending the work of the foundation and encouraging support for it. We warmly appreciate Mr. Held's efforts on our behalf.

Members recently received copies of our audited financial statements setting out financial data for the first eight months of 1992 and all of 1991. They provide a complete picture of the fiscal aspects of the foundation's affairs, including the assets and liabilities, revenue and expenditures, and investments.

Notwithstanding the decline in memberships, subscription income, which amounted to \$984,000, was some \$40,000 higher than in the comparable period last year. The increase was due to recent modest increases in membership fees.

Conferences during the eight months generated expenditures that were \$12,000 greater than revenue, as compared with net revenue of \$9,000 in 1991. These figures do not, of course, give an accurate reflection of the results of our conference program for a full year, since two major conferences, the Ontario Tax Conference and the annual conference, are held after August 31. I will say more about them later.

Investment income, which is traditionally the third largest category of foundation revenue, fell from \$129,000 in 1991 to \$82,000. The decline was attributable to the steady reduction in interest rates throughout the year. Investments are managed by the treasurer under the supervision of the investment committee, which is chaired by Leonard Eisen, FCA, a former governor.

Our publications sales increased slightly from \$68,000 to \$71,000. The revenues generated by the policies adopted last year of carrying advertising in the *Journal/Revue* and charging a fee for granting permission to reprint foundation material amounted to \$56,000.

We are grateful to the International Fiscal Association for the grant of \$5,000 to assist us in defraying the mounting costs of international tax material for our library collection.

Although costs are being stringently controlled during these financially challenging times, expenditures rose by \$85,000, of which \$78,000 was attributable to increased rent. In the previous year we had enjoyed several rent-free months under our new lease.

The net result of the year's activities to August 31 was an excess of expenditures over revenues of \$505,000 in the operating fund, compared with \$467,000 in 1991. Let me emphasize that our financial picture would have been considerably improved had the results of all of our conferences been taken into account.

As for the board-designated research endowment fund, which is intended to provide the resources necessary to support commissioned research projects, investment income totalled \$256,000 and expenses \$172,000, resulting in an excess of \$84,000, as compared with \$124,000 in the previous year. It should be noted, too, as the financial statements make clear, that the foundation has commitments of approximately \$900,000 for the future production of various publications and monographs.

It was the inspiration of leaders of the accounting and legal professions that led to the establishment of the foundation. For nearly half a century, it has filled a special niche in the realm of public finance, devoting its human and material resources to the continuous study of taxation and government expenditure for the benefit of its members and the general public. Yet the financial data make clear that, as the foundation sets its sights on the 21st century, a substantial strengthening of its financial base is necessary if it is to retain able staff, build upon its record of excellence, and continue to function as Canada's leading centre of research and education in the field of public finance.

Conferences

Conferences have long been regarded as one of the most significant contributions made by the foundation to the study and exposure of tax problems. As a forum for sharing information and insights on all manner of tax and fiscal issues, the conferences hold a unique place in Canadian public affairs.

As I mentioned earlier, during the eight months under review, only a part of the conference program has been completed.

Two Séminaires techniques were held in Montreal in February and March, dealing with "La planification successorale" and "Le financement de la recherche et du développement," respectively. Winnipeg was the situs of the Prairie Provinces Tax Conference in May. The Journées d'études fiscales was convened in Montreal, also in May.

The two-day Corporate Management Tax Conference, the 29th in this series of meetings designed primarily for our corporate members and their advisers, was given over to a discussion of "Income Tax and GST Considerations in Corporate Financing." The published report of the proceedings will constitute a unique collection of comprehensive papers on this subject of broad interest to our members.

In the new fiscal year, commencing September 1, several conferences have already been held: the British Columbia Tax Conference and the Colloque sur la gestion fiscale in September, and the Atlantic Provinces Tax Conference and the Ontario Tax Conference in October.

Over the next three days, we are presenting both the annual conference and a special symposium devoted to a discussion of simplification of the federal-provincial sales tax system. An innovation this year will be the distribution to registrants of binders containing outlines of the papers to be delivered at these events. A wide range of topical issues will be discussed at the annual conference. Participants include the Honourable Otto Jelinek, Minister of National Revenue, and the Honourable J-Claude Couture, Chief Judge of the Tax Court of Canada.

The purpose of the symposium is to examine the problem of the mounting complexity of the federal-provincial sales tax system. Speakers have been requested not only to examine the nature and sources of complexity but also to advance suggestions as to how simplification might be achieved. Our hope

is that the symposium will foster reasoned dialogue about the complexity problem and generate constructive ideas to help resolve it.

Quebec Office

A major responsibility of the Quebec governors and the staff in the Montreal office—Louise Lapalme, the regional director, and her assistant, Danielle Cousineau—is the organization and presentation of conferences. In addition to the two Séminaires techniques and the Journées d'études fiscales, which I mentioned earlier, the Colloque sur la gestion fiscale was convened in September and, two weeks ago, a déjeuner/causerie (luncheon) was held in Montreal. It attracted a capacity attendance of members and friends, who came to hear the guest speakers, Serge Bastien, the recently appointed assistant deputy minister of Revenue Canada for the Quebec region, and Denis Martineau, director of the St-Hubert district office. Their subject was “Revenue Canada—à la recherche de l'excellence.”

The Quebec governors met recently to review foundation activities in the province and plan 1993 events. Arrangements are well advanced for next year's Séminaires techniques, to be held in February and March.

There appear to be more programs for advanced study in taxation in Quebec than elsewhere in Canada. A course of study leading to the degree of maîtrise en fiscalité has been available at the University of Sherbrooke for over a decade; and McGill University and, commencing this fall, the École des Hautes Études Commerciales offer certificate courses. Students enrolled in these various programs are frequent visitors to the foundation office, where they make use of our publications. Many have become members, taking advantage of the reduced fee that is available to students.

New Products

Over the years, the printed word has been the vehicle for disseminating the results of foundation research, conference proceedings, *Journal/Revue* articles, and other material. As a result of advances in technology, tax professionals are increasingly accustomed to turning to a keyboard rather than a library to research an issue. It is second nature for them—particularly younger members in the professions (the “Nintendo set”)—to have resort to a floppy disk rather than a book.

With a view to providing foundation material in a form that will enormously facilitate its use by members, the foundation is in the process of preparing an electronic database. A disk containing several 1991 foundation publications will be ready for distribution next April. The items to be included are the annual conference report, the Corporate Management Tax Conference report, six issues of the *Canadian Tax Journal/Revenue fiscale canadienne*, the five-year consolidated index, the supplementary index, and draft papers delivered at the 1992 annual conference that are available at the time of distribution of the disk. A second disk, containing 1992 foundation material, will be distributed in October.

The database, which will be known as "TaxFind," was developed on our behalf by Coopers & Lybrand. We are especially grateful to David Forster, CA, Rod Bergen, CA, and Ellen Nordstrom of that firm for the imagination and energy that they brought to the task.

The preparation of disks containing other material is under consideration.

The Canadian tax system continues to be characterized by dynamism and change. Keeping abreast of new developments is a constant challenge. Yet it is essential to do so to take advantage of tax saving opportunities and avoid pitfalls.

To assist members in meeting this challenge, particularly practitioners in small and medium-sized firms, the foundation will commence publication in January 1993 of a monthly periodical, *Canadian Tax Highlights*, that will deal briefly with topical events. Vivien Morgan is the editor. She is a graduate of the Faculty of Law at the University of Toronto and a talented writer. For the past decade, she was a member of the tax departments of two national accounting firms.

Other Matters

We were pleased to have as visitors to the foundation in June some 20 members of the Tokyo Association of Licensed Chartered Accountants, who were interested in recent Canadian tax developments. In July, the foundation organized a one-day seminar on intergovernmental fiscal relations for a group of senior government officials from China. In August, the students enrolled in the Harvard Law School International Tax Program spent the day with us. Professor Richard Bird, of the Department of Economics at the University of Toronto, addressed the group.

Board of Governors

Traditionally at the annual meeting, the chair announces the retirement of a number of governors and the names of nominees to replace them. However, to accommodate the change in the date of the annual meeting, governors who would have retired in April 1993 have agreed to remain in office until the next annual meeting in November 1993. The terms of other governors will also be extended by about seven months. We have a productive, energetic, imaginative group of governors and are grateful to them for agreeing to serve the additional time.

In accordance with the bylaws of the foundation, the election of governors will take place at this meeting. The list of nominees was distributed with the notice of the annual meeting.

Earlier this year we suffered the deaths of a past chair of the foundation, Frank T. Denis, CA, and a former director, Ronald Robertson, QC. Mr. Denis, a senior partner in the Montreal office of Peat Marwick Mitchell, was chair in 1971. He passed away on May 18, 1992, after a short illness. Ronald Robertson, a partner in the Toronto office of McCarthy Tétrault, died on September 12, 1992. He was a member of the foundation staff from 1959 to 1967, first as executive assistant to the director and then, for six years, as director. He maintained his affiliation with the foundation and often attended foundation events. We record their passing with sorrow but with appreciation for their contributions, to us and to others.

New Director

In his report last year, the chair mentioned that a long-range planning committee had been established for the purpose of reviewing all aspects of the foundation's operations and making appropriate plans for its future activities.

Among the matters he discussed was the search for a successor to the director, Douglas Sherbaniuk, who will retire in 1994. I am delighted to announce that the new director will be Thomas E. McDonnell, QC, president, the McDonnell Consulting Corporation. His credentials for the position are most impressive. He graduated from Osgoode Hall Law School in 1965 and practised law in Toronto until 1974, when he joined the teaching faculty of the University of Toronto Law School, specializing in tax and business law. During 1977, he was a research associate at the foundation and in 1978 he joined McMillan Binch. He withdrew from the firm in the fall of 1989, when

he formed the McDonnell Consulting Corporation to provide specialized business and tax related advice to corporate and individual clients.

He is a former governor of the foundation and is well known to our members as co-editor of the *Journal/Revue* feature "Current Cases." He has written and lectured extensively on tax matters. One of his most recent duties was that of chair of the Ontario Fair Tax Commission's working group on the corporate minimum tax. He will be joining the foundation next spring on a part-time basis and on a full-time basis as associate director later in the year, and will assume the role of director in the spring of 1994.

Conclusion

I mentioned earlier our reliance on our individual members and corporate subscribers for their financial support of the foundation. We are also highly dependent upon the valuable contribution of time and skills on the part of many of our members and others who so generously come forward to assist us and contribute their exceptional knowledge and experience in the foundation's conferences and other activities. On behalf of us all, I would like to thank them for their continuing assistance and support. I especially include among these the members of the board of governors and I wish personally to express my appreciation for their help during my term as chair.

I now move, seconded by Glen E. Cronkwright, FCA, the following resolution—namely, that this report of the foundation for the eight months ending August 31, 1992, 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.

Edwin C. Harris, QC
Chair
November 22, 1992

REPORT OF THE DIRECTOR
TO THE FORTY-SEVENTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION
NOVEMBER 22, 1992

Publications and Research

It is my privilege to give an account of the research and publication programs of the foundation since the last annual meeting in April.

The publication of the results of our research, conferences, and other activities has been central to the foundation's efforts since its beginning. The wide variety of publications we issue serves as a channel of communication not only to our members, but also to government officials, educators and students, and others concerned with taxation and public spending.

The dissemination of the foundation's findings is encouraged by news releases announcing publications, by the distribution of review copies, and by granting permission, for a reasonable fee, to reprint or excerpt from foundation studies.

As the chair pointed out, technological advances will enable us, next year, to distribute foundation material in the form of an electronic database.

To ensure that our publication standards are met, articles submitted for the *Journal/Revue* and manuscripts for monographs are reviewed by one or more outside referees in private practice, universities, and the business community. They contribute to quality control through advice, criticism, and other aids to authors.

That the foundation is a major Canadian publisher is apparent from our annual output, which includes six issues of the *Journal/Revue*, conference reports, monographs, and public finance handbooks. Commencing in January, we will add to that list a new monthly periodical, *Canadian Tax Highlights*.

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

The *Canadian Tax Journal/Revue fiscale canadienne* is internationally recognized as a leading periodical in the field of public finance. Now in its

40th year, its pages attract serious writers on a wide variety of tax and fiscal subjects. As a matter of editorial policy, an effort is made to include in the *Journal/Revue* 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.

The bilingual character of the *Journal/Revue* is reflected in a number of ways. In addition to the French title, the explanatory material about the *Journal/Revue* is presented in both French and English. The précis that precedes each article is also prepared in both languages. Almost every issue contains an original French-language article and one of the features, Personal Tax Planning, appears in both languages.

Finally, members may have noted a change in the appearance of the 1992 *Journal/Revue*. The front cover has been redesigned to provide more details with respect to the content of the features, and administrative material concerning submissions to the *Journal/Revue* has been moved to the front.

The next issue of the *Journal/Revue* will mark the 10th anniversary of one of the features, Current Tax Reading, edited by Brian J. Arnold. When the feature was introduced in 1983, a note in the *Journal/Revue* read in part as follows: "In the last 10 years, we have witnessed an explosion in the amount of literature on all aspects of taxation. At one time, a person could reasonably expect to acquire everything published dealing with Canadian taxation. Now it is difficult to read or even be aware of all the tax books, articles, and other material being published. Moreover, Canadians who are trying to keep up with significant developments in other tax systems, especially in countries with which Canadians have significant business transactions and investments such as the United States and the United Kingdom, find the proliferation of tax literature on a worldwide basis truly intimidating." The note went on to say that the new feature "will provide a wide-ranging review of selected pieces of all forms of tax literature—government reports, books, articles, and conference proceedings, for example. Some publications will be reviewed in depth; others may simply be noted."

Since its inception, the feature has lived up to its billing superbly.

Two editions of *The National Finances* were issued this year. The 1991 edition was distributed in February to foundation members who requested it and also 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 face the seemingly intractable task of coping with the federal deficit through tax measures and expenditure restraint.

The staff hastened to complete the 1992 edition by the end of August in order to have it available for university staff and students.

Although the federal government has been subjected to expenditure restraint for some years now, it remains the largest single entity in the country, the most significant domestic influence on the economy, and the one organization that affects the daily lives of all citizens. Many Canadians seek to understand how the federal government collects tax and other revenue and where it spends the proceeds. *The National Finances* is dedicated to assisting them with this daunting task.

Although there are many governmental and private sector sources of information on federal government revenues and expenditures, including budget documents, estimates, public accounts, the annual reports of departments and agencies, and so on, *The National Finances* synthesizes all of these sources, drawing them together in one place.

The 15th edition of our biennial companion publication, *Provincial and Municipal Finances*, was published in May. Collectively, the provincial, territorial, and local governments account for about one-half of all tax revenue and spending. The uniformity in the tax and spending activities of the central government is not mirrored by the other two levels of government; each province has its own unique system of tax and charges and its own ways of delivering services, all of which are described in this volume. It also examines the transfers of funds from federal to provincial and from provincial to local levels of government, which vary from province to province.

Since the annual meeting in April, a copy of the report of the proceedings of the 1991 annual conference was sent to all foundation members.

Also, those who submitted a request card received a new volume in our series of tax papers, *Taxation to 2000 and Beyond*, a report of the proceedings of a special conference held in January 1991. Over the past two decades, the Canadian tax system has undergone continual change. Major modifications include restructuring the income tax in 1971 in the wake of the Carter report, broadening the income tax base and reducing the rates as a result of the 1987 federal tax reform measures, and adopting the goods and services tax in 1991 to replace the manufacturers' sales tax. Since there is, of course, no tax policy for all seasons, the system will continue to evolve in response to changes in the social, economic, and political environment.

In January 1991, the foundation convened a conference in Toronto to consider some of the issues that seemed likely to be central in the formulation of Canadian tax policy for decades to come. Papers presented at the conference discussed tax policy as it relates to the environment, regulation of the economy, demographic implications for social insurance (that is, the greying of the population), the changing family structure, internationalization of markets, growth of the service sector, restructuring of Canadian industry, and federal-provincial fiscal relations.

One of the survey papers in this volume, dealing with the environment, convinced us that a more expansive treatment was warranted and has led to the commissioning of a full study on this topic.

Four other studies have been completed and are being made ready for publication. One of the most popular books ever published by the foundation was *Taxation of Private Corporations and Their Shareholders*, by Howard J. Kellough and Peter E. McQuillan, which was issued in 1983. Since then, myriad tax changes have made the book badly out of date. In the second edition, which will be published early next year, the text has been completely revised and new chapters added. We expect that it will be as enthusiastically received as the first edition was.

Fiscal Policy in Canada: An Appraisal, by Thomas Wilson and Peter Dungan, presents a systematic analysis of fiscal policy in Canada over the past decade and its effects on inflation, savings and investment, and the rate of potential economic growth. The book examines fiscal policy and the great recession of 1981-82, the recovery in 1983-84, the western accord and corporate tax reform, the 1987 income tax reforms, and the effect of sales tax reform.

Financing Canadian Federation, by David Perry, is a historical review of highlights in the financing of our federal system. It will enlighten readers about the evolution of tax sharing, equalization, conditional grants, and shared-cost programs. An extensive statistical appendix provides information on the payments to the provinces under the various arrangements.

Intergovernmental Fiscal Relations in Canada, by Robin Broadway and Paul Hobson, is a revision and extension of one of the early volumes in the foundation's series on financing Canadian federation. New features that are covered include an analysis of conditional and unconditional grants, transfers from provincial to municipal governments, the use of the federal spending power, the Meech Lake accord, the recent constitutional negotiations, and the

tax collection agreements, with special attention to the implications of the national sales tax.

Work is going forward on several other projects.

Ernest J. Smith is preparing a detailed examination of the history of the federal-provincial tax collection agreements, which commenced in 1962. The agreements, you will recall, were the subject of a federal discussion paper that was issued last year.

A matter of widespread interest to the members of the Canadian business community and their professional advisers is the tax treatment of interest, both the income side and the deduction side. There has been very little research and writing from a tax policy perspective on this important feature of the income tax. The publication by the Department of Finance last December of draft legislation concerning the deductibility of interest expense incurred for certain purposes has focused attention on the tax treatment of financing costs. The foundation's study will contribute to the public debate by illuminating the issues and the alternative policy choices and their consequences. Brian J. Arnold is the principal researcher. Because of their timeliness, certain chapters from the study have been published in the *Journal/Revue*, one in 1990, another in 1991, and two this year.

François Vaillancourt is proceeding with his study of the financing of workers' compensation boards in Canada. Their financial significance is impressive: in 1991 they collected nearly \$6 billion in premiums from employers. This study will outline the economic issues facing workers' compensation boards: the determination of costs, the financing of the boards through premiums, and the liabilities, and will make policy recommendations.

The relative importance of wealth taxes in Canada has been on a decline since the 1970s, when the federal government withdrew from the death and gift tax field and was followed by the provinces. Property taxes as a share of gross domestic product and of total taxes declined substantially in the early 1970s and have remained relatively constant. Canada has no net wealth tax. The 1987 federal tax reforms decreased taxes on income and increased taxes on consumption. A consumption tax, relative to an income tax, encourages wealth accumulation. Thus, current shifts in tax policy may lead to greater concentrations of wealth. Given these developments, it is timely to review the state of wealth taxation in Canada. Roger Smith has undertaken the project. The subject is also being addressed by a working group appointed by the

Ontario Fair Tax Commission, which is inquiring into the implications of a wealth tax and a death duty for Ontario.

During the decade of the 1980s, some of Canada's major public expenditure programs motivated a number of foundation studies—for example, unemployment insurance, social security, and health care. Another candidate for close examination is the financing of public education. Harry Kitchen and Douglas Auld are making good progress with their study of the taxation and expenditure aspects of financing elementary, secondary, and post-secondary education in Canada. It is an ambitious project that we do not expect to see completed for at least another year.

To enlarge our understanding of provincial financial affairs, the foundation has commissioned Paul Boothe to prepare a study of Alberta's revenues and expenditures during the past several decades. It will be the first extensive examination of one province's spending and revenue over a protracted period of time.

Many Canadians rank environmental problems at the top of their list of concerns. The desire for better environmental protection has merged with the fiscal crisis that faces governments at all levels in North America to generate interest in environmental taxes as a possible solution to both problems. Nancy Olewiler is preparing a study on environmental taxation for the foundation. She will review environmental taxes used in other countries, examine the environmental impact of the existing tax structure in Canada, consider potential environmental taxes for Canada, and conclude with suggested policy implications of environmental taxation.

Of topical interest among tax practitioners is the taxation of non-retirement benefit plans for employees in Canada. It is the subject of a monograph that is being prepared for the foundation by R.D. Weil, who has been seconded to the foundation from Revenue Canada for this purpose. The study will cover such matters as taxation of employment income, employee benefit plan rules, plans to defer salary or wages, health and welfare plans, employment termination arrangements, and employee share agreement plans.

Staff

The text of this report does not permit a full exposition of the contributions that each of the staff members of the foundation makes to its activities. Let me say at the outset that their diligence and dedication add lustre to its efforts.

After nearly eight years of service as a secretary, Vera Bradley left the foundation last summer. The vacancy resulting from her departure has not been filled.

In February, we welcomed to the research staff Ted Cook, who was previously employed by the Ontario Department of Municipal Affairs and had been seconded to the Ontario Fair Tax Commission. His extensive knowledge of local government will be put to good use in the preparation of some of our financial handbooks.

Laura Martin joined us in April as receptionist and secretary and has fit very well into our operations.

Other members of the staff need no introduction to you. The research team—David Perry, Mary Gurney, and Karin Treff—have had a busy and productive year. Among his many accomplishments, David has written or edited the *Journal/Revue* feature Fiscal Figures for nearly 25 years. He is also our main contact with the media, helping to give perspective and background when journalists call. Members of the media are an important constituency to which research institutions must pay attention if books and research reports are to find the widest possible audience.

Louise Lapalme, regional director of the Quebec office, and her assistant, Danielle Cousineau, have been fully occupied in attending to our activities in Quebec, as the chair mentioned.

The treasurer, Norm Witherell, has responsibility for preparing the financial statements, investing the foundation's funds, and overseeing our membership affairs.

Norma Forrester, manager of membership records, is his helpful assistant.

Pat Hillmer assumed a number of roles over the past several months. As conference secretary, she attends to the administrative aspects of our extensive conference program. She is also corporate secretary of the foundation and, for the past year, has been the director of marketing, in which capacity she has looked after the advertising service in the *Journal/Revue*. She has also contributed significantly to the development of the electronic database that the chair referred to.

Marg Brown is a seasoned and valuable member of the conference administration team, as is Janis Daniel, who has also provided increasingly valuable and creative assistance to Pat in all her activities.

The foundation's editor is Laurel Amalia. Her efforts and those of the staff she supervises maintain the high quality of the foundation's publications. One of her functions is helping to train new editors to meet her rigorous standards. Much of the administrative burden is borne by her capable assistant, Leesa Armstrong.

The heart of the foundation is the library, which is used with increasing frequency by members, visitors from other institutions in Canada and abroad, students, and academics. Ron MacLeod, the librarian, and Carol Mohammed, assistant librarian, are responsible for maintaining our growing collection of tax and public finance material as well as assisting visitors and responding to telephone inquiries.

Bruce Clarke serves in dual capacities, as assistant to the treasurer and manager of the publications department.

I am pleased to acknowledge the capable help that Astrid Elkins has provided to me in so many ways.

The annual meeting affords me the opportunity to thank publicly all of my colleagues on the staff for the cooperation and support that they have invariably extended to me.

In conclusion, I must express my sincere appreciation on behalf of the staff for the interest and encouragement of the board of governors and the members at large.

D.J. Sherbaniuk
Director
November 22, 1992

CANADIAN TAX FOUNDATION CORPORATE MEMBERS*

The foundation takes this opportunity to thank its corporate members for their continuing support. In addition to the companies listed below, more than 86 corporations give indirect support through membership in one association that subscribes to the foundation.

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*Every effort has been taken to ensure the accuracy of company names.

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National Sea Products Limited	NS	Royal Trust Corporation of Canada	
National Silicates Limited	ON	Limited	ON
National Trust Company	ON		
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Norcen Energy Resources Limited	AB	Scotia Investments Limited	NS
Northern Telecom Limited	ON	ScotiaMcLeod Inc.	ON
Northstar Energy Corporation	AB	Sears Canada Inc.	ON
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