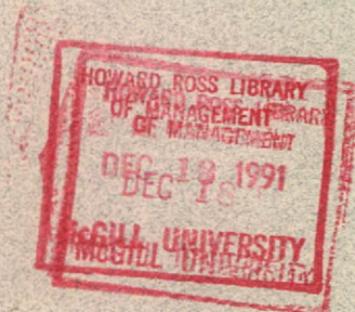


Forty-Fifth Annual Report

*For the Year Ending
December 31, 1990*



Canadian Tax Foundation
L'Association Canadienne
d'Etudes Fiscales

Forty-Fifth Annual Report

*For the Year Ending
December 31, 1990*



Canadian Tax Foundation
L'Association Canadienne
d'Etudes Fiscales

One Queen Street East, Suite 1800, Toronto, Canada M5C 2Y2

CANADIAN TAX FOUNDATION
L'Association Canadienne d'Études Fiscales
THE BOARD OF GOVERNORS

Elected April 23, 1991

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R.G. Beaudoin, CA	Edmonton
Jack Bernstein	Toronto
M.L. Bishop, CA	Saint John
* G.T.W. Bowden	Vancouver
* R.D. Brown, FCA	Toronto
Pierre Brunet, CA	Montreal
L.M. Burnham	Saint John
Michael Cadesky, CA	Toronto
P.C. Copeland, FCA	Sydney
* G.E. Cronkwright, FCA	Calgary
K.R. Dean, CA	St. John's
H.-L. Fortin	Quebec
C.H. Fryers	Calgary
D.D. Graham, CA	Vancouver
Marcel Guilbault, CA	Montreal
* E.C. Harris, QC	Halifax
D.P. Hayhurst, CA	Vancouver
N.E. Hopkins	Saskatoon
F.P. Kirby	Edmonton
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* R.F. Lindsay, QC	Toronto
* Guy Lord	Montreal
Samuel Minzberg	Montreal
M.J. O'Keefe	Vancouver
Alain Paris, CA	Montreal
Norm Promislow	Winnipeg
T.J. Stack, CA	Saskatoon
W.J. Strain, FCA	Toronto
Simon Tardif	Montreal
R.B. Thomas	Toronto
* André Tremblay, CA	Quebec
R.G. Witterick, QC	Toronto

* Executive Committee of the Board of Governors

OFFICERS

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E.C. Harris, QC, *Vice-Chairman and Chairman of the Executive Committee*
G.E. Cronkright, FCA, *Vice-Chairman*
R.F. Lindsay, QC, *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 (deceased)
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 (deceased)
* F.T. Denis, CA, Montreal
W.E.P. DeRoche, QC (deceased)
* D.J. Kelsey, FCA, Vancouver

(Continued on next page.)

PAST CHAIRMEN (cont'd)

- 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
- D.Y. Timbrell, FCA (deceased)
- * P.N. Thorsteinsson, QC, Vancouver
- * André Lesage, FCA, Montreal

* Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1990

ASSETS		
OPERATING FUND	1990	1989
CURRENT ASSETS		
Cash and marketable securities (note 2)	\$1,975,180	\$2,282,777
Accrued interest and accounts receivable	<u>356,728</u>	<u>237,676</u>
	2,331,908	2,520,453
FIXED ASSETS		
Computers, furniture and office equipment	519,123	477,580
Leasehold improvements	90,400	90,400
Library books and publications	<u>1</u>	<u>1</u>
	609,524	567,981
Accumulated depreciation and amortization	<u>437,097</u>	<u>375,964</u>
	172,427	192,017
RESEARCH ENDOWMENT FUNDS (note 2)		
Investments	<u>4,311,461</u>	<u>3,798,293</u>
	<u>6,815,796</u>	<u>6,510,763</u>
LIABILITIES		
OPERATING FUND		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	545,492	462,979
Deferred revenue - subscriptions	<u>679,357</u>	<u>647,386</u>
	1,224,849	1,110,365
BALANCE OF FUNDS		
OPERATING FUND	1,279,486	1,602,105
RESEARCH ENDOWMENT FUNDS		
Board-designated	4,299,353	3,787,702
Donor-designated	<u>12,108</u>	<u>10,591</u>
	<u>4,311,461</u>	<u>3,798,293</u>
	<u>\$6,815,796</u>	<u>\$6,510,763</u>

Approved on behalf of the Board of Governors:

Robert F. Lindsay, QC
Chairman

Robert D. Brown, FCA
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1990

REVENUE	1990	1989
Subscriptions:		
Individual	\$1,023,455	\$ 942,142
Corporate	<u>332,057</u>	<u>294,667</u>
	1,355,512	1,236,809
Conference revenue	1,467,679	1,875,392
Investment income	204,179	205,917
Publication sales	101,327	97,813
Grant from International Fiscal Association	<u>5,000</u>	<u>5,000</u>
	3,133,697	3,420,931
EXPENDITURE		
Conference expenses	976,560	1,133,316
Research salaries	121,316	106,465
Rent	378,209	300,966
Publications	701,807	610,244
Administration salaries	171,759	155,573
Annual general meeting	39,324	44,302
Depreciation and amortization	61,133	69,782
Employee benefits	160,687	132,320
General office expense	92,818	99,530
Montreal office expense	103,396	88,480
Library services	183,673	168,452
Membership records	121,243	94,947
Office printing, stationery and supplies	18,539	26,220
Postage and courier	41,573	38,872
Professional fees	12,275	9,428
Telephone and communications	13,464	13,607
Travelling - staff	2,425	2,247
- board	<u>6,115</u>	<u>12,655</u>
	<u>3,206,316</u>	<u>3,107,406</u>
EXCESS OF REVENUE OVER EXPENDITURE (EXPENDITURE OVER REVENUE) FOR THE YEAR	<u>\$ (72,619)</u>	<u>\$ 313,525</u>

CANADIAN TAX FOUNDATION

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1990

BOARD-DESIGNATED FUNDS	1990	1989
REVENUE		
Investment income	\$ 479,360	\$ 394,008
EXPENDITURE		
Authors' fees and expenses	106,180	74,587
Editing and review of manuscripts	60,572	28,943
Typesetting	19,200	32,847
Printing	24,035	17,907
Postage and handling	7,722	5,124
	<u>217,709</u>	<u>159,408</u>
EXCESS OF REVENUE OVER EXPENDITURE FOR		
THE YEAR	<u>261,651</u>	<u>234,600</u>

DONOR-DESIGNATED FUNDS		
REVENUE		
Donations	200	—
Investment income	<u>1,317</u>	<u>1,090</u>
EXCESS OF REVENUE OVER EXPENDITURE FOR		
THE YEAR	<u>\$ 1,517</u>	<u>\$ 1,090</u>

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1990

OPERATING FUND	1990	1989
Balance at beginning of year	\$1,602,105	\$1,538,580
Excess of revenue over expenditure (expenditure over revenue) for the year	<u>(72,619)</u>	<u>313,525</u>
Transfers to board-designated research endowment fund	<u>1,529,486</u>	<u>1,852,105</u>
Balance at end of year	<u>1,279,486</u>	<u>1,602,105</u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance at beginning of year	3,787,702	3,303,102
Transfer from operating fund	<u>250,000</u>	<u>250,000</u>
Excess of revenue over expenditure for the year	<u>4,037,702</u>	<u>3,553,102</u>
Balance at end of year	<u>261,651</u>	<u>234,600</u>
DONOR-DESIGNATED		
Balance at beginning of year	10,591	9,501
Excess of revenue over expenditure for the year	<u>1,517</u>	<u>1,090</u>
Balance at end of year	<u>\$ 12,108</u>	<u>\$ 10,591</u>

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1990

CASH PROVIDED BY (USED FOR)	1990	1989
OPERATING ACTIVITIES		
Excess of operating fund revenue over expenditure (expenditure over revenue) for the year	\$ (72,619)	\$ 313,525
Item not involving cash - amortization and depreciation	61,133	69,782
Net change in non-cash working capital balances related to operations	<u>(4,568)</u>	<u>223,856</u>
	<u>(16,054)</u>	<u>607,163</u>
INVESTING ACTIVITIES		
Acquisition of fixed assets	(41,543)	(165,024)
Transfer of funds to research endowment funds	<u>(250,000)</u>	<u>(250,000)</u>
	<u>(291,543)</u>	<u>(415,024)</u>
CHANGE IN CASH AND CASH EQUIVALENT	(307,597)	192,139
CASH AND CASH EQUIVALENT - at beginning of year	2,282,777	2,090,638
- at end of year	<u>1,975,180</u>	<u>2,282,777</u>
CASH AND CASH EQUIVALENT IS REPRESENTED BY		
Bank balances	3,334	1,294
Short term investments	<u>1,971,846</u>	<u>2,281,483</u>
	<u>\$1,975,180</u>	<u>\$2,282,777</u>

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1990

1. SIGNIFICANT ACCOUNTING POLICIES

Investments

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

Fixed Assets

Fixed assets are recorded at cost. Depreciation and amortization are provided over the estimated useful lives of the assets at the following annual rates on a straight-line basis.

Computers, furniture and office equipment 10% - 20%

Leasehold improvements 10%

Library

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

Deferred Revenue

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

CANADIAN TAX FOUNDATION

Pension Plan

The Foundation has a trustee, defined benefit pension plan covering substantially all of its regular employees. The Foundation accounts for pension costs and obligations using the accrued benefit method. The fund's assets are valued at market values and actuarial estimates are used in valuing pension obligations. Experience gains or losses and unfunded actuarial liabilities arising as a result of changes in assumptions and plan amendments are amortized in accordance with Ontario pension regulations.

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 were no shortfalls in 1990 or 1989.

2. INVESTMENTS

A summary of investments is as follows:

	1990	1989
Operating Fund		
Cash	\$ 3,334	\$ 1,294
Bankers' acceptances, treasury bills, provincial promissory notes and Government of Canada bonds	1,971,846	2,281,483
	<u>1,975,180</u>	<u>2,282,777</u>

Research Endowment Fund

Short term treasury bills, Government of Canada bonds and trust company guaranteed investment certificates	2,836,551	2,325,033
Long term bank mortgage bonds	1,474,910	1,473,260
	<u>4,311,461</u>	<u>3,798,293</u>

3. RESEARCH ENDOWMENT FUND

During the year the governors authorized the transfer of \$250,000 from the Foundation's operating fund to the board-designated research endowment fund (1989 - \$250,000).

4. PENSION COSTS

Based on an actuarial valuation of the plan performed as of January 1, 1989 the value of the assets was \$1,032,100 and the pension plan obligations were \$1,099,400, resulting in an unfunded liability of \$67,300. Subsequent plan amendments have resulted in an increase of \$97,450 in the unfunded liability, all in respect of past service costs. The total 1990 pension expense of \$71,715 (1989-\$68,366) includes \$42,492 (1989-\$43,266) in respect of past service payments.

5. LEASE COMMITMENT

In 1989 the Foundation entered into a new office lease agreement which was to commence September 1, 1990, expiring in 2000. Due to construction delays occupancy is expected to begin in March, 1991. The basic annual rent for the first five years will be \$356,642 plus an amount representing property tax and operating costs.

6. PUBLICATION COMMITMENTS

At December 31, 1990 the Foundation has commitments of approximately \$725,000 for the future production of various publications and tax papers.

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/L'Association canadienne d'études fiscales as at December 31, 1990 and 1989 and the statements of balance of funds, operating fund revenue and expenditure, research endowment funds revenue and expenditure and operating fund changes in financial position for the years 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 audits 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 December 31, 1990 and 1989 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

Toronto, Ontario
January 18, 1991

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

**REPORT OF THE CHAIRMAN
TO THE FORTY-FIFTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
APRIL 23, 1991**

This report marks the close of the foundation's forty-fifth year of operation. Its mission over the decades has been to contribute to the understanding and improvement of the Canadian tax and expenditure system through its research projects, conference programs, and numerous publications. Although the mission of the foundation is little changed as the twenty-first century approaches, its various activities have grown and diversified.

The annual meeting affords the chairman and the director an opportunity to report both on the foundation's affairs over the past year and the activities planned for 1991.

Membership and Finance

Since its inception in 1945, the foundation has been primarily financed by subscriptions from its individual and corporate members. It is disappointing to have to report that we experienced a net decline in both categories last year. The main reason for the decline was, undoubtedly, the deterioration in economic conditions throughout the year. In the case of some corporations, membership was terminated by reason of cessation of business and mergers and takeovers.

In the light of the continuing high level of interest in the tax field and the many advantages that are derived from membership in the foundation, we are optimistic that we can reverse the trend and restore growth in both categories of membership upon the return of a buoyant economy. Our membership efforts this year will be directed at increasing corporate support in all parts of Canada. Apart from the financial considerations, it is important that all regions and interests be adequately represented in a national organization such as ours. Members can assist the new board of governors, one of whose tasks is to ensure that finances are sufficient to meet the needs of the foundation, by referring to them any companies which might subscribe if approached.

The report on membership leads naturally into a report on foundation finances.

A copy of the audited financial statements of the foundation for 1990 was included with the notice of the annual meeting and members have, therefore, had an opportunity to study it. To help you translate this array of figures into the practicality of our operations, there are a few matters I bring especially to your attention.

Subscription revenues exceeded \$1.3 million and were \$118,000 higher than in the previous year, due to an increase in the individual membership fee from \$125 to \$140 and in the minimum corporate subscription from \$375 to \$420. The higher fees are justified by the increase in both the cost and the quantity of material being produced by the foundation.

It should be noted that, notwithstanding difficult economic times, 63 corporations increased their contributions. We gratefully acknowledge their investment in the foundation and, indeed, that of all of our corporate members, whose names are listed at the end of this report.

Income from conferences in recent years has constituted the second largest source of income. In 1990, our conference activities generated income of \$490,000, down from \$742,000 in 1989. A decline in attendance at the annual conference, attributable, of course, to the recession, is the explanation.

Investment income remained nearly flat at \$204,000. Investments are managed by the treasurer under the supervision of the investment committee, which is chaired by Leonard Eisen, FCA, a former governor. Revenue from publications sales increased marginally to \$101,000.

I take this occasion to extend the thanks of the foundation to the Canadian branch of the International Fiscal Association for its grant of \$5,000. The funds are earmarked for the acquisition of international materials for the library collection.

Operating expenditures rose by nearly \$100,000. The main increases were for rent and the cost of publications. The year ended with an excess of expenditure over revenue of \$72,000 in the operating fund.

Let me now say a word about the board-designated research endowment fund. With a view to providing an assured source of revenue to foster research, the board of governors in November 1981 authorized the appropriation of

\$1.5 million out of the foundation's operating fund to create a board-designated research endowment fund. The income from the fund has been used to finance commissioned studies and research projects. Surplus income generated by the fund is capitalized at the end of the year and becomes part of the fund. If the income is insufficient to meet the research costs, the shortfall is made up from the operating fund. The fund is also enhanced by periodic transfers from the operating fund. In 1990, as in 1989, the amount transferred was \$250,000. At the year-end, the fund had a surplus of revenue over expenditure of \$261,000. As is noted in the financial statements, the foundation has commitments of \$725,000 for the future production of various publications. Additional studies have been commissioned this year and several others are under consideration.

Conferences

One of the foundation's primary objectives is education in taxation of the public in general and of our members in particular. It is served not only by our research and publications but also by our conferences.

The 1990 annual conference, held in Montreal in November, was the forty-second in the series of national meetings that have been convened by the foundation for the purpose of providing a forum for the discussion of tax issues of current interest. The proceedings of the conference are not ephemeral affairs but have been recorded permanently in the conference reports, which constitute an invaluable tax library in themselves. A wide variety of topics was chosen for discussion last fall, although a main focus of attention was the goods and services tax, to which several sessions were devoted. We received requests for nearly 9,500 copies of the conference papers, and were glad to be able to provide them at a nominal cost as a service to members in advance of the publication of the report of the conference proceedings.

It was our pleasure and privilege to have as guest of honour and banquet speaker the Honourable Floyd Laughren. In his first major address as treasurer of Ontario, he provided an overview of the new government's fiscal agenda.

The theme of the 1990 Corporate Management Tax Conference, which was held in Vancouver and Toronto in June, was "Income Tax and Goods and Services Tax Aspects of the Purchase and Sale of a Business." In both cities, the proceedings were very well received.

Our regional conference program, which extends literally from coast to coast, permits local as well as national tax problems in Canada to be discussed and analyzed. The fifteenth annual Prairie Provinces Tax Conference was held in Calgary in May. The British Columbia Tax Conference, traditionally held in the spring, was deferred to September, in response to the preference expressed by our members. The change is likely to be a permanent one. The Atlantic Provinces Tax Conference, co-sponsored by Dalhousie University, was also held in September. The third annual Ontario Tax Conference, like its predecessors, was devoted to a discussion of issues of interest to small and medium-sized businesses and attracted an attendance of 572.

Our French-language conference program was also an active one. Two half-day sessions, the Séminaires techniques, were held in Montreal in March and May. The annual Journées d'études fiscales was presented in June and the seventh Colloque sur la gestion fiscale, in September.

The conference program for the current year was off the mark at an early date. On January 24-25, the foundation convened a conference on "Taxation to 2000 and Beyond." Its objective was to consider in depth some of the issues that seem likely to be central in the formulation of Canadian tax policy for decades to come. The proceedings will be published and distributed to members requesting a copy. Arrangements for our regular regional conferences are well in hand. We expect a high level of interest in the Corporate Management Tax Conference, which will be devoted to a discussion of "Income Tax and GST Aspects of Executive and Employee Compensation." Finally, it is not too early to remind you that the place and dates of the annual conference are Toronto on November 25-27.

In this forty-fifth year of operation, it seems appropriate to observe that the foundation's conferences have become established as institutions across the country. That we have consistently presented high-quality events and built up a loyal following is borne out by the comments on the evaluation sheets that are provided at all conferences. They make clear that we are providing a valuable service that meets the needs of our members.

Premises

The foundation's lease of the premises it occupied in the Hong Kong Bank building expired at the end of August, at which time we expected to relocate the offices in the new building at One Queen Street East. Delays in construction postponed the move until last month.

The new premises, which will be the foundation's home for the next 10 years, are located on the eighteenth floor and are well planned and spacious and tastefully, if modestly, furnished. Although the rent is considerably higher than we have paid in the past, it is still less than it would have been had we remained in the previous building. We have adequate space for staff offices and the growing library and we feel well satisfied with the result.

Quebec Office

The foundation's office in Montreal was opened nearly four years ago. During that period, Louise Lapalme, the regional director of the Quebec office, and her assistant, Danielle Cousineau, with the full support of the governors, have provided a variety of services to our Quebec members, particularly those who prefer to conduct their affairs in French. They organize the extensive conference program, to which I have already referred, make available to members and the public a complete set of foundation publications, attend to membership matters, maintain contact with universities to explain the work of the foundation, respond to requests for sources of tax information, and assist in the solicitation of French articles for the *Canadian Tax Journal/Revue fiscale canadienne*.

In order to determine how the foundation is perceived by our members in Quebec, the firm of Léger & Léger was engaged to elicit from a random selection of members their views about our activities. It is gratifying to be able to report that the responses were highly favourable. The few suggestions for improvement that were made were essentially requests for more of what we are already doing.

Since the opening of the Quebec office, we have had two short-term arrangements for office space. Upon the termination of our sublease in September, we will move the office to new premises at 2020 rue University. They are somewhat larger and more conveniently located and will accommodate the growth of our operations over the next few years. We are grateful to Pierre Lessard, one of our governors from Quebec, who expended considerable time and effort in negotiating a lease on attractive terms on our behalf.

Library

The 23,000 volumes in the foundation's library constitute one of the largest collections of tax and public finance literature in the country. As my predecessor reported last year, over a period of two years the card catalogue for the collection was transferred into a data base that has dramatically reduced the time for searches. The project necessitated the creation of a thesaurus in order to deal with several hundred subject headings. The thesaurus is being expanded, refined, and edited.

Organizations setting up a tax collection often ask us for advice on acquisitions and planning and, in particular, permission to use our subject headings, which vastly exceed the number found in other systems. The foundation's subject thesaurus is currently being used either in whole or in part by several organizations around the world, including the New Zealand Department of Inland Revenue; the National Tax Association in the United States; the Tax Court of Canada; Revenue Canada, Taxation; the Society of Management Accountants; and several law and accounting firms.

A new project for the library is the development of a periodical index, which will facilitate the use of foreign publications. To date the staff have indexed our complete holdings of six periodicals.

Board of Governors

Members of the foundation have received a list of the nominations made by the nominating committee, which consists of the president of the Canadian Institute of Chartered Accountants, Kenneth A. Mader, FCA; the president of the Canadian Bar Association, Wayne R. Chapman, QC; and the chairman of the foundation. You will note among the nominees the names of those who are now on the board and have been renominated for another year. I shall introduce to you those nominees who are not at present governors. We are very pleased at the prospect of having them share in the board's important responsibilities:

R.B. Andrews, St. John's
Pierre Brunet, CA, Montreal
L.M. Burnham, Saint John
G.E. Cronkwright, FCA, Calgary
C.H. Fryers, Calgary

Marcel Guilbault, CA, Montreal
D.P. Hayhurst, CA, Vancouver
W.R.G. Lawlor, FCA, Toronto
Samuel Minzberg, Montreal
M.J. O'Keefe, Vancouver
Norm Promislow, Winnipeg
R.B. Thomas, Toronto
R.G. Witterick, QC, Toronto

Glen Cronkwright is returning to the board, having served previously from 1978 to 1981, when he practised in Ontario.

Thirteen members of the board will retire this year. They are:

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
André Lesage, FCA, Montreal
Pierre Lessard, Montreal
R.B. MacLellan, Truro
D.B. Orsborn, St. John's
R.T. Rocchi, Toronto
D.A. Ward, QC, Toronto

On behalf of all foundation members, I acknowledge the valued help we have received from these colleagues and express the thanks of the meeting to them. On the basis of our experience, I feel confident that retirement from office does not mean that they retire from the foundation's activities. We look forward to their continued association with our work. I wish to take this opportunity to pay a special tribute to André Lesage, FCA, who retires from the board after seven years as governor. He served first from 1982 to 1985. Fortunately for the foundation, his return to the board in 1987 coincided with the opening of the office in Quebec. We are grateful to him not only for the leadership he provided in guiding our affairs but especially for his enthusiasm and imagination that contributed so much to the success of our Quebec office.

During the past year we suffered the deaths of three former chairmen of the foundation, William E.P. DeRoche, QC; A. Willard Hamilton, CA; and

David Y. Timbrell, FCA. Mr. Hamilton, a tax partner in the Montreal office of Price Waterhouse, was chairman in 1957; Mr. DeRoche, a partner in the Toronto law firm of Blake Cassels & Graydon, in 1972; and Mr. Timbrell, the national tax partner in the Toronto office of Coopers & Lybrand, in 1987. All served the foundation with energy, devotion, and care. We record their passing with sorrow but with appreciation for their contributions, to us and to others.

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

I now move, seconded by Robert D. Brown, FCA, the following resolution—namely, that this report of the foundation for the fiscal year ending December 31, 1990, and the financial statements of the foundation as of the same date as submitted to this meeting be, and they are hereby, approved and adopted.

Robert F. Lindsay, QC
Chairman
April 23, 1991

**REPORT OF THE DIRECTOR
TO THE FORTY-FIFTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION
APRIL 23, 1991**

Publications and Research

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

Since its establishment 45 years ago, the foundation has defined its mission clearly—to contribute to the improvement of the tax laws and the process of citizen education in the field of taxation and public expenditure primarily through its research and publications. As the chairman observed in his remarks, the foundation's mission has remained constant over the decades. But the issues it addresses have not. The extraordinary pace and scope of change abroad and at home have presented an array of new and pressing problems, which include:

- distribution of the taxing and spending powers under a reconstructed Canadian constitution,
- the large and growing federal deficit and mounting provincial deficits,
- increasing tensions in federal-provincial-municipal fiscal relations,
- the growing gap between rich and poor and the emergence of a Canadian underclass that is mired in poverty,
- industries that are in a state of decline, and
- allocation of the tax burden.

How are Canadians to cope with these and other issues in an era of limited resources? There is no "magic bullet" to resolve the budget deficit; no talisman to ease intergovernmental fiscal tensions; no nostrum to ease the plight of the poor. There are varied and intricate forces that converge to influence the development of tax policy and public spending in a society as pluralistic as ours. It is the foundation's conviction that disinterested, competent research is one of the forces that can influence the course of debate and contribute to the process by which public decisions are made.

Some of the issues to which I have referred were considered at a two-day conference in January on "Taxation to 2000 and Beyond." The focus of the conference was on a set of issues that are likely to play pivotal roles in the development of tax policy in the next few decades. The particular topics selected were chosen from a much wider range of possibilities not only because of their present and (especially) potential importance but also because sufficient knowledge and expertise appear to exist in the Canadian tax community to make a useful contribution at this time. Speakers surveyed the "state of the art" with respect to their subjects and commented on the probable future direction of tax policy in the area concerned. Papers addressed such issues as taxation and the environment, regulation, social insurance, the family, industrial structure, taxation in a service-oriented world, tax policy in an integrated world economy, and taxation in a changing federal system.

From these survey papers, we have identified areas that warrant more expansive examination.

Some of the foundation's books are directed at meeting the needs of practitioners. During the 1980s, several monographs of interest to tax lawyers, accountants, and corporate tax officers were published—for example, *Taxation of Private Corporations and Their Shareholders* by Howard J. Kellough and Peter E. McQuillan, *The Meaning of Cost in Canadian Income Tax* by D. Keith McNair, *Timing and Income Taxation: The Principles of Income Measurement for Tax Purposes* by Brian J. Arnold, and *The Taxation of Controlled Foreign Corporations: An International Comparison* by Brian J. Arnold. The main obstacle to undertaking more such projects has been the difficulty of enlisting the services of experienced tax professionals, for whom it is often virtually impossible to devote the substantial blocks of time necessary for a major project.

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

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

Publications

The year 1990 was gratifying in the area of publication.

The premier forum in Canada for discussion of tax issues is, of course, the bi-monthly *Canadian Tax Journal/Revue fiscale canadienne*. Now in its thirty-ninth year, it is widely read and frequently quoted. Its contents include not only articles but also nine features, which deservedly have come to be regarded as indispensable reading for those who seek to keep informed about the subjects they deal with.

The tenth anniversary of two of the features was marked in 1990: The Taxation of Corporate Reorganizations, edited by Douglas Ewens, QC, of McCarthy Tétrault and Kevin Dancey, CA, of Coopers & Lybrand and Selected US Tax Developments, edited by Sanford Goldberg of Roberts & Holland, New York.

The thirty-fifth edition of *The National Finances*, the only publication in Canada to analyze the entire federal government revenue and expenditure program, was distributed to members last April. Because data on federal finances are seen by the public as a dry, technical, and impenetrable jungle of numbers, this publication is designed to help the non-specialist understand the fiscal information that is provided in a number of government publications. Although it may not appear on the bestseller list, each year the book is read by hundreds of university students and scholars, members of other research institutions, business and professional people, and officials at all levels of government.

As in the previous year, copies were sent to all members of the House of Commons, several of whom wrote to say how useful this compendium of information had been to them.

In each issue, the first chapter is devoted to a particular field of government activity. Last year it discussed regional disparities and the numerous special expenditure measures, grants, and tax concessions adopted to lessen them. In the next edition, which will be published this week, chapter 1 focuses on government responses to environmental issues from the local to the international levels. Since decisions by government, industry, and individuals have an impact on the environment, making a concerted and coordinated response is imperative as environmental issues take centre stage for all levels of government.

Our biennial sister publication, *Provincial and Municipal Finances*, which examines the revenues and expenditures of provincial and local governments, was published last July.

As the financial operations of governments grow in magnitude and complexity, the difficulties of attempting to provide a compendious, yet accurate, analysis of those operations increase commensurately.

Although these publications have appeared for several years and perhaps are taken for granted, they hold a unique place among Canadian financial publications and are the product of hundreds of hours of labour by the staff. We acknowledge with gratitude the unfailing cooperation we have received from federal, provincial, and municipal officials.

Other regular foundation publications that appeared during the year under review include the reports of the Corporate Management Tax Conference and the annual conference, and *1989 Tax Developments*, our annual compilation of tax developments in Canada as reported in the *Journal/Revue* feature Checklist.

To make the wealth of information contained in the foundation's extensive literature readily accessible and therefore more useful, the foundation publishes an annual index covering a year's publications. The 1989 index was published last week. It has been substantially expanded to include for the first time the papers delivered at six regional conferences.

Every fifth year, a consolidation of the annual indexes is prepared. The 1990 consolidation, covering publications issued from 1986 to 1990, is well along. We have made arrangements with the firm that compiles the index to prepare a software program that will permit the index to be put into an electronic form that can be updated continuously. It will enable members to do searches with a minimum expenditure of time and maximum thoroughness.

Five new books have been added to our series of tax papers. A brief comment on each may be of interest. The first is Catherine A. Brown's study, *Tax Aspects of the Transfer of Technology: The Asia-Pacific Rim*, which reflects the increase in interdependence of Canada with the rest of the world. It examines the tax issues associated with the transfer of patents, trademarks, copyright, and know-how to seven countries in the burgeoning Asia-Pacific region which have both the interest in acquiring them and the capability of exploiting them.

A fundamental and highly controversial change in the Canadian tax system is the introduction of the goods and services tax to replace the longstanding manufacturers' sales tax. In *The Economics of the Goods and Services Tax*, the authors, John Whalley and Deborah Fretz, review the debate on the GST, provide a dispassionate analysis of the strengths and weaknesses of the tax, compare it to the manufacturers' sales tax, evaluate alternatives to the GST, and look at other countries with value-added taxes to see what Canada can learn about the GST from experience abroad.

The outpouring of tax changes by the federal, provincial, and municipal governments during the latter years of the 1980s convinced the foundation and J. Harvey Perry that a fifth edition of his classic book, *Taxation in Canada*, would be warmly welcomed. Members of the Canadian tax community have relied on this work for over three decades to provide them with an explanation in relatively simple terms of the basic nature of the taxes imposed by the three levels of government, their historical background, and their relationship to one another and to the economic development of the country. The book was published last fall.

The fourth monograph is Brian J. Arnold's *Tax Discrimination Against Aliens, Non-Residents, and Foreign Activities: Canada, Australia, New Zealand, the United Kingdom, and the United States*. Canada's income tax system contains many provisions that treat aliens, non-residents, and foreign activities less favourably than nationals, residents, and domestic activities. Such tax discrimination is not unique to Canada. This study identifies and analyzes the discriminatory provisions in the Canadian income tax system, examines the legal protection that is available against such tax discrimination, and compares the Canadian tax system with the tax systems of four other countries—Australia, New Zealand, the United Kingdom, and the United States. The author makes some general recommendations for reforming the Canadian tax system to minimize its discriminatory aspects and for broadening the protection against discrimination provided in tax treaties.

Finally, the two-volume report of the proceedings of the foundation's conference on provincial finances was published recently. The operations of provincial and local governments account for one-half of all government revenues and expenditures and have a more immediate and direct impact on the average Canadian than those of the federal government, providing, as they do, health care, education, social assistance, transportation, police and fire protection, and many more services. To enhance our understanding of provincial revenues and expenditures and intergovernmental fiscal relations, and to encourage further study of this important area, the foundation organ-

ized a conference that was held in Toronto in May 1989. The papers prepared for the conference are collected in two volumes. Volume 1 contains a survey of the finances of each province and the Yukon and Northwest Territories. Volume 2 contains papers that explore a wide variety of aspects of provincial finances, discussants' comments, and thoughts on future directions.

Three other studies have been completed and are in the publication process. The first is Harry Kitchen's study of the property tax, which is the main source of revenue of municipal governments. The second is "Fiscal Policy in Canada: An Appraisal," by Thomas A. Wilson and Peter Dungan. The purpose of this project is to provide a systematic analysis of fiscal policy in Canada over the past decade, which provided a rich array of shocks and imaginative fiscal policy initiatives. The book examines the worst recession since the 1930s, efforts to control the deficit, tax reform, and federal budgets, and concludes with a consideration of the appropriate fiscal stance for Canada as we enter the decade of the 90s. What distinguishes this monograph from other studies of fiscal policy is the systematic use of a macroeconomic model to evaluate fiscal policy. The third is a particularly timely study by Pierre-André Côté and Diane Bruneau, "Quelques problèmes d'interprétation de la loi fiscale," which takes into account the substantial changes that the rules of construction of taxing statutes have undergone in recent years. Each author's contribution will appear as an article in consecutive issues of the *Journal/Revue*.

Also in preparation is the report of the proceedings of the special conference on "Taxation to 2000 and Beyond." As the chairman noted, the purpose of the conference was to identify major issues in tax policy that will emerge during the decade of the 90s and into the next century.

Several other projects are currently under way. In the light of the 1991 federal budget, which reduced federal transfers to the provinces and announced that a white paper on federal-provincial fiscal relations would be issued later this year, three studies are of topical interest. The first, by David B. Perry, is *Financing of Canadian Federation*, an historical overview of highlights in the financing of our federal system. The second, by Ernest H. Smith, is a detailed examination of the history of the federal-provincial tax collection agreements. Finally, Robin Broadway and Paul Hobson have nearly completed their study of "Intergovernmental Fiscal Relations in Canada," which is a revision and extension of one of the early volumes in the foundation's series on financing Canadian federation. New features to be covered include an analysis of conditional versus unconditional grants, transfers from provincial to municipal governments, the use of the federal

spending power, the Meech Lake Accord, and the tax collection agreement, with special attention to the implications of a national sales tax.

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. We are glad to be able to report that the authors have recently commenced work on a second edition.

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, to Revenue Canada, and to the Department of Finance, which has had the subject under study for the past three years. A proposed amendment to the Income Tax Act concerning the deductibility of interest, following in the wake of the *Bronfman Trust* decision in 1987, has been deferred again to the end of this year. Second, the 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 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. Brian J. Arnold is the principal researcher. You may recall that a chapter from the study by Professor Arnold and Tim Edgar was published in the July-August 1990 issue of the *Journal/Revue*, "Reflections on the Submission of the CBA-CICA Joint Committee on Taxation Concerning the Deductibility of Interest."

François Vaillancourt is proceeding with his study of the financing of workers' compensation boards in Canada. Their financial significance is impressive: in 1991 they will collect 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. The federal government withdrew from the death and gift tax field, 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 reform 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.

Three new studies are in the initial stages. The steady demand that we have had for the second edition of *Canadian Tax Policy*, particularly from universities, has dropped off in the last year or two because the contents are no longer current. The authors, Harry Kitchen and Robin Boadway, have undertaken to prepare a third edition, which will entail a substantial rewriting and expansion to include the many important developments that have occurred in recent years.

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 have agreed to undertake a study of the taxation and expenditure aspects of financing elementary, secondary, and post-secondary education in Canada. It is an ambitious project which we do not expect to see completed for at least two years.

Apart from the foundation's *Provincial and Municipal Finances*, there is a dearth of information on provincial revenues and expenditures that is conveniently available. I mentioned earlier that the foundation recently published the proceedings of a two-day conference on "Provincial Finances: Problems, Plaudits, and Prospects" that was convened for the purpose of providing a conspectus of recent developments and current issues in provincial financial affairs. The next step to be taken in this area is an extensive study of one province's spending and revenue over a protracted period of time. Paul Boothe, of the Department of Economics at the University of Alberta, recently commenced such a study of Alberta's revenues and expenditures over the past several decades. It may prove to be the first of several monographs, each of which would deal in depth with a province's spending and revenues.

Staff

Since the last annual general meeting, there have been several changes in personnel.

Jean Van Hezewyk, secretary to the foundation's secretary, resigned to take a new position. We are glad to have Janis Daniel as her successor.

Jim Groves, a research associate, resigned in order to return to university. His successor is Karin Treff, who joined the full-time staff in September, after having served on a part-time basis for some years.

Karin is one member of the team that prepares *The National Finances* and *Provincial and Municipal Finances*, as well as articles in the *Journal/Revue* dealing with provincial budgets.

Her colleagues are long-time members of the research staff, David B. Perry, Millie Goodman, and Mary Gurney, who continue in their productive ways. David's talent for explaining tax developments clearly and simply has made him a frequent guest on television and radio programs.

As has already been mentioned, Louise Lapalme, the regional director of the Quebec office, and her assistant, Danielle Cousineau, had a fruitful year.

In addition to his duties of preparing financial statements, overseeing investments, and supervising membership affairs, the treasurer, Norm Witherell, took on the task of coordinating the efforts of the staff, our consultants, and our new landlord to ensure that the move to our new premises went well. His able assistant is Norma Forrester, supervisor of membership records.

In charge of conference administration is Pat Hillmer, who attends to the countless matters involved in the efficient functioning of our conferences. Pat is also the corporate secretary. For many years, she has had the support of Marg Brown, who has become a familiar figure at registration desks at foundation conferences in all parts of the country.

Laurel Amalia is the foundation's editor. She personally edits some of the *Journal/Revue* and supervises the editing and production of the increasing flow of publications produced by foundation staff and outside writers from manuscript to bound volume. Leesa Armstrong provides efficient administrative assistance.

That the library has had a busy year was apparent from the chairman's comments. Ron MacLeod, the librarian, and Carol Mohammed, assistant librarian, in addition to their usual duties, spent much time and effort in planning the removal of the collection to the new premises.

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

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

The annual meeting affords me the opportunity to express publicly my thanks to all of my colleagues on the staff for the cooperation and support which 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 of the members at large. On a more personal note, I want to say how much I enjoyed a most cordial and congenial association with our chairman, Bob Lindsay, and the officers and governors. I welcome the incoming board of governors and assure them that the staff will do its utmost to ensure another successful year under their direction and guidance.

Douglas J. Sherbaniuk
Director
April 23, 1991

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The foundation takes this opportunity to thank its corporate members for their continuing support. In addition to the companies listed below, more than 200 corporations give indirect support through membership in two associations that subscribe to the foundation.

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