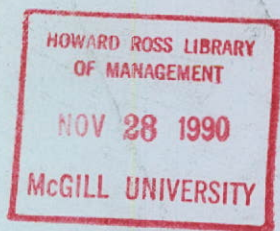


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Forty-Fourth Annual Report

*For the Year Ending
December 31, 1989*



Canadian Tax Foundation
L'Association Canadienne
d'Études Fiscales

Forty-Fourth Annual Report

*For the Year Ending
December 31, 1989*



Canadian Tax Foundation
L'Association Canadienne
d'Études Fiscales

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

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

Elected April 24, 1990

F.G. Beaudoin, CA	Edmonton
Jack Bernstein	Toronto
M.L. Bishop, CA	Saint John
G.T.W. Bowden	Vancouver
R.A. Brown, CA	Calgary
* R.D. Brown, FCA	Toronto
Michael Cadesky, CA	Toronto
P.C. Copeland, FCA	Halifax
W.E. Crawford, FCA	Toronto
K.R. Dean, FCA	St. John's
* C.M. Fien	Winnipeg
* J.C. Finkbeiner, CA	Vancouver
H.-L. Fortin	Quebec
D.D. Graham, CA	Vancouver
* E.C. Harris, QC	Halifax
N.E. Hopkins	Saskatoon
J.B. Katchen, QC	Calgary
F.P. Kirby	Edmonton
S.H. Kraayeveld, CA	Winnipeg
E.G. Kroft	Vancouver
Michel Lanteigne, CA	Montreal
* André Lesage, FCA	Montreal
* Pierre Lessard	Montreal
* R.F. Lindsay, QC	Toronto
Guy Lord	Montreal
R.B. MacLellan	Truro
D.B. Orsborn, CA	St. John's
Alain Paris, FCA	Montreal
R.T. Rocchi	Toronto
T.J. Stack	Saskatoon
W.J. Strain, FCA	Toronto
Simon Tardif	Montreal
André Tremblay, CA	Quebec
D.A. Ward, QC	Toronto
* Executive Committee of the Board of Governors	

OFFICERS

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

PAST CHAIRMEN

- M.L. Gordon, KC (deceased)
G.R. Munnoch, KC (deceased)
J.G. Glassco, FCA (deceased)
W.G.H. Jephcott, FCA (deceased)
C.S. Richardson, QC (deceased)
K. LeM. Carter, FCA (deceased)
Lazarus Phillips, QC (deceased)
* T.A.M. Hutchinson, FCA, Toronto
R. DeW. MacKay, QC (deceased)
* J.A. Wilson, FCA, Toronto
M.G. Teed, QC (deceased)
* A.W. Hamilton, CA, Montreal
H.F. White, QC (deceased)
C.W. Leach, CA (deceased)
* S.D. Thom, QC, Toronto
* A.J. Little, FCA, Toronto
J. DeM. Marler, QC (deceased)
* A.D. Russell, CA, Vancouver
A.S. Pattilo, QC (deceased)
* L.J. Smith, FCA, Toronto
P.F. Vineberg, QC (deceased)
* H.M. Caron, CA, Montreal
* J.M. Godfrey, QC, Toronto
R.B. Dale-Harris, FCA (deceased)
Roger Letourneau, QC (deceased)
* F.T. Denis, CA, Montreal
* W.E.P. DeRoche, QC, Toronto
* D.J. Kelsey, FCA, Vancouver

* Advisory Committee of Past Chairmen

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

- * Advisory Committee of Past Chairmen

CANADIAN TAX FOUNDATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 1989

ASSETS		
	<i>1989</i>	<i>1988</i>
OPERATING FUND		
CURRENT ASSETS		
Cash and marketable securities (note 2)	\$2,282,777	\$2,090,638
Accrued interest and accounts receivable	<u>237,676</u>	<u>227,546</u>
	2,520,453	2,318,184
FIXED ASSETS		
Computers, furniture and office equipment	477,580	312,556
Leasehold improvements	90,400	90,400
Library books and publications	<u>1</u>	<u>1</u>
	567,981	402,957
Accumulated depreciation and amortization	<u>375,964</u>	<u>306,182</u>
	192,017	96,775
RESEARCH ENDOWMENT FUNDS (note 2)		
Investments	<u>3,798,293</u>	<u>3,312,603</u>
	<u>6,510,763</u>	<u>5,727,562</u>

LIABILITIES

OPERATING FUND		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	462,979	345,211
Deferred revenue - subscriptions	<u>647,386</u>	<u>531,168</u>
	1,110,365	876,379

BALANCE OF FUNDS

OPERATING FUND	1,602,105	1,538,580
RESEARCH ENDOWMENT FUNDS		
Board-designated	3,787,702	3,303,102
Donor-designated	<u>10,591</u>	<u>9,501</u>
	3,798,293	3,312,603
	<u>\$6,510,763</u>	<u>\$5,727,562</u>

Approved on behalf of the Board of Governors:

André Lesage, FCA
Chairman

Robert F. Lindsay, QC
Vice-Chairman

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1989

REVENUE	1989	1988
Subscriptions:		
Individual	\$ 942,142	\$ 868,846
Corporate	<u>294,667</u>	<u>299,121</u>
	1,236,809	1,167,967
Conference revenue	1,875,392	1,460,279
Investment income	205,917	157,404
Publication sales	97,813	116,238
Grant from International Fiscal Association	<u>5,000</u>	<u>5,574</u>
	3,420,931	2,907,462
EXPENDITURE		
Conference expenses	1,133,316	753,570
Research salaries	106,465	88,247
Rent	300,966	292,049
Publications	610,244	627,540
Administration salaries	155,573	136,650
Annual general meeting	44,302	33,187
Depreciation and amortization	69,782	58,116
Employee benefits	132,320	146,714
General office expense	99,530	104,105
Montreal office expense	88,480	57,505
Library services	168,452	146,568
Membership records	94,947	69,365
Office printing, stationery and supplies	26,220	17,140
Postage and courier	38,872	38,383
Professional fees	9,428	11,655
Telephone and communications	13,607	14,540
Travelling - staff	2,247	5,046
- board	<u>12,655</u>	<u>9,284</u>
	3,107,406	2,609,664
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 313,525</u>	<u>\$ 297,798</u>

CANADIAN TAX FOUNDATION

STATEMENT OF RESEARCH ENDOWMENT FUNDS REVENUE AND EXPENDITURE YEAR ENDED DECEMBER 31, 1989

	1989	1988
BOARD-DESIGNATED FUNDS		
REVENUE		
Investment income	\$ 394,008	\$ 308,868
EXPENDITURE		
Authors' fees and expenses	74,587	56,641
Editing and review of manuscripts	28,943	17,452
Typesetting	32,847	4,562
Printing	17,907	2,626
Postage and handling	5,124	2,213
	<u>159,408</u>	<u>83,494</u>
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>234,600</u>	<u>225,374</u>
DONOR-DESIGNATED FUNDS		
REVENUE		
Donations	—	250
Investment income	1,090	853
EXCESS OF REVENUE OVER EXPENDITURE FOR THE YEAR	<u>\$ 1,090</u>	<u>\$ 1,103</u>

STATEMENT OF BALANCE OF FUNDS YEAR ENDED DECEMBER 31, 1989

	1989	1988
OPERATING FUND		
Balance at beginning of year	\$1,538,580	\$1,240,782
Excess of revenue over expenditure for the year	<u>313,525</u>	<u>297,798</u>
	1,852,104	1,538,580
Transfers to board-designated research endowment fund	<u>250,000</u>	<u>—</u>
Balance at end of year	<u>1,602,105</u>	<u>1,538,580</u>
RESEARCH ENDOWMENT FUNDS		
BOARD-DESIGNATED		
Balance at beginning of year	3,303,102	3,077,728
Transfer from operating fund	<u>250,000</u>	<u>—</u>
	3,553,102	3,077,728
Excess of revenue over expenditure for the year	<u>234,600</u>	<u>225,374</u>
Balance at end of year	<u>3,787,702</u>	<u>3,303,102</u>
DONOR-DESIGNATED		
Balance at beginning of year	9,501	8,398
Excess of revenue over expenditure for the year	<u>1,090</u>	<u>1,103</u>
Balance at end of year	<u>\$ 10,591</u>	<u>\$ 9,501</u>

CANADIAN TAX FOUNDATION

STATEMENT OF OPERATING FUND CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1989

CASH PROVIDED BY (USED FOR)	1989	1988
OPERATING ACTIVITIES		
Excess of operating fund revenue over expenditure for the year	\$ 313,525	\$ 297,798
Item not involving cash - amortization and depreciation	69,782	58,116
Net change in non-cash working capital balances related to operations	<u>223,856</u>	<u>(6,509)</u>
	607,163	349,405
INVESTING ACTIVITIES		
Acquisition of fixed assets	(165,024)	(7,767)
Transfer of funds to research endowment funds	<u>(250,000)</u>	<u>—</u>
	(415,024)	(7,767)
CHANGE IN CASH AND CASH EQUIVALENT	192,139	341,638
CASH AND CASH EQUIVALENT - beginning of year	2,090,638	1,749,000
- end of year	<u><u>2,282,777</u></u>	<u><u>2,090,638</u></u>
CASH AND CASH EQUIVALENT IS REPRESENTED BY		
Bank balances	1,294	847
Short term investments	<u>2,281,483</u>	<u>2,089,791</u>
	<u><u>\$2,282,777</u></u>	<u><u>\$2,090,638</u></u>

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 1989

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 contribution 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 1989 or 1988.

2. INVESTMENTS

A summary of investments is as follows:

	1989	1988
Operating Fund		
Cash	\$ 1,294	\$ 847
Bankers' acceptances, treasury bills, provincial promissory notes and Government of Canada bonds	2,281,483	2,089,791
	<u>2,282,777</u>	<u>2,090,638</u>
Research Endowment Fund		
Short term treasury bills, Government of Canada bonds and trust company guaranteed investment certificates	2,325,033	2,716,623
Long term bank mortgage bonds	1,473,260	595,980
	<u>\$3,798,293</u>	<u>\$3,312,603</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. (1988 - Nil)

4. PENSION COSTS

Based on the 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. The total 1989 pension expense of \$68,366 (1988 - \$90,436) includes \$43,266 (1988 - \$56,500) in respect of past service payments.

5. LEASE COMMITMENT

In 1989 the Foundation entered into a new office lease agreement, commencing September 1, 1990 and expiring in 2000. 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, 1989 the Foundation has commitments of approximately \$670,000 for the future production of various publications and tax papers.

CANADIAN TAX FOUNDATION

AUDITORS' REPORT

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

We have examined the statement of financial position of the Canadian Tax Foundation/L'Association canadienne d'études fiscales as at December 31, 1989 and the statements of operating fund revenue and expenditure, research endowment funds revenue and expenditure, balance of funds and operating fund changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Foundation/L'Association as at December 31, 1989 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
January 18, 1990

CLARKE HENNING & CO.
CHARTERED ACCOUNTANTS

**REPORT OF THE CHAIRMAN
TO THE FORTY-FOURTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
APRIL 24, 1990**

The annual meeting affords the chairman an opportunity to report on certain aspects of the foundation's activities over the past year. In this forty-fourth annual review, I am pleased to be able to record significant accomplishments in virtually all of our affairs. To catalogue them briefly, the research and publications program expanded, our conferences continued to attract substantial numbers of registrants, the Quebec office had a productive year, and, finally, the year ended with a substantial balance on the credit side of the accounts.

Membership and Finance

Since its founding in 1945, the foundation has been financed principally by subscriptions from its corporate and individual members. Our conferences and investments also contribute appreciable amounts to revenues. At December 31, there were 8,956 individual members, a net increase of 56 over the previous year.

The corporate subscribers' picture is not as bright. At the end of the year, there were 341 corporate members, a net decrease of 8 from the previous year. An additional 183 companies support the foundation through two associations, so that total corporate memberships now number 524.

The full details of the foundation's financial position for 1989 are set out in the audited financial statements that accompanied the notice of this meeting. You will have noted from the statements of revenue and expense and assets and liabilities of the operating fund and the research endowment funds that the foundation's financial situation is sound. On the income side, membership subscriptions, the principal category of revenue, increased by \$68,000 to a total of \$1.2 million. The gain was attributable primarily to a modest increase in the individual membership fee from \$110 to \$125 and in the minimum corporate subscription from \$330 to \$375. Also, 62 corporate members voluntarily increased their contributions to the foundation by

\$14,000. These contributions are important to the foundation not only for their financial value, but also for the confidence and trust in the foundation that they represent. We are grateful to all of our corporate members for their generous support. Their names are listed at the end of this report.

Our conference activities, particularly the annual conference, generated net revenue of \$742,000, an increase of \$35,000 over the previous year. Investment revenue amounted to \$205,000, an increase of nearly \$50,000 over 1988, reflecting the high interest rates that prevailed throughout the year. In this era of investment uncertainty and volatility, our portfolio is made up of high-quality debt instruments, including guaranteed investment certificates, government bonds, and banker's acceptances. Investments are under the general supervision of the investment committee, which meets quarterly and gives directions to the treasurer for the investment of foundation funds. We are indebted to the members of the committee for their helpful service.

Publication sales amounted to \$98,000, down from \$116,000 in 1988. The revenues that we derive from publications fluctuate substantially from year to year and, in large part, are a function of the demand for our publications by universities.

Our finances were enhanced by a grant of \$5,000 from the Canadian branch of the International Fiscal Association. The funds are to be used for the acquisition of international tax materials for the library collection. We thank the officers of IFA for their generosity and thoughtfulness.

Expenditures rose by nearly \$500,000, the main increases being for conferences, the enlargement of the premises and staff of the the Quebec office, library services, and membership records. The net result of the year's activities was a favourable balance of \$313,000 in the operating fund, compared with \$298,000 in 1988.

Let me now say a word about the board-designated research endowment fund. The fund was created in 1981 for the purpose of generating revenues to finance research projects commissioned to experts outside the foundation. Over the years, it has given the foundation the stability and flexibility to pursue a timely and varied research agenda. In 1989, because certain studies were not completed when expected, the endowment fund had a surplus of \$234,000. At the year-end, the foundation had commitments of \$670,000 for the future production of studies in progress.

During the past year, the computing facility at the foundation has undergone major changes in both equipment and organization. We successfully installed and implemented a network system connecting the personal computers in the library, the research group, the conference department, and the director's office. The computers can communicate with each other, exchange information, and share common printing equipment. Several staff can now use the system simultaneously. In the membership department, a substantial amount was expended to engage a consultant to develop a new software program for membership records, thereby enabling us better to meet the needs of our individual and corporate supporters. Last fall we purchased a new computer for membership purposes to replace the antiquated equipment we were then using. The new computer provides a significant increase in computing capacity and speed and in the functions it can perform.

Conferences

Conferences have long been recognized as a major phase of the foundation's work, constituting as they do a forum for sharing information and insights on tax and fiscal problems. Many accounting and law firms, corporations, and government departments make the foundation's conferences an integral part of their educational programs. In 1989, the foundation convened more conferences than in any previous year.

At the annual conference in Toronto last November, several sessions were devoted to a discussion of recent income tax amendments and the proposed goods and services tax legislation. We were very pleased to have as participants both the minister of finance and the minister of national revenue. The guest speaker was the Honourable W.Z. Estey, a former justice of the Supreme Court of Canada, whose delightfully humorous address was among one of the highlights of the conference. He was no stranger to the foundation, having taken part in a panel discussion of tax avoidance in 1968, when he was in private practice.

The Corporate Management Tax Conference, the twenty-sixth in this series of meetings designed primarily for representatives of our corporate members and their advisers, was devoted to a discussion of income tax aspects of real estate transactions. The conference was held in Toronto and Vancouver in June and attracted a record attendance of nearly 900 people.

Included in the regional conference program were the Prairie Provinces Tax Conference, held in Winnipeg, the British Columbia Tax Conference, the

Ontario Tax Conference, and the Atlantic Provinces Tax Conference, which was co-sponsored by St. Mary's University.

Our offering of French language conferences was substantially expanded last year. An innovation was the Séminaires techniques, consisting of three, half-day sessions in Montreal and Quebec city in March, April, and May. They were well received and are being convened again this year. Our regular conferences in Quebec, the Journées d'études fiscales and the Colloque sur la gestion fiscale were held in June and September respectively. A one-day conference on the goods and services tax was held in Montreal and Quebec city in December.

Two special conferences were held in 1989. A two-day meeting on "Provincial Finances: Plaudits, Problems, and Prospects" was held in Toronto in May. Its purpose was to discuss provincial government revenues and expenditures and intergovernmental fiscal relations, and contribute to the relative paucity of information about provincial government fiscal affairs. The proceedings are now well along in the editing process and will result in two volumes to be published later this year. A conference on the tax treatment of the petroleum industry was held in Calgary in October, the first foundation conference on this topic since 1985.

A full agenda of conferences is planned for the current year. They will focus not only on income tax issues but increasingly on the goods and services tax, as the date of implementation fast approaches. The Prairie Provinces Tax Conference is scheduled for Calgary in May. One of the two days will be devoted entirely to the GST. The British Columbia Tax Conference, traditionally held in Vancouver in May, is being postponed to September, in the expectation that the long-awaited income tax technical bill will be available for discussion. Senior Revenue Canada officials will be taking part in both conferences.

The Ontario Tax Conference is scheduled for October and, as in past years, will discuss tax issues of concern to small and medium-sized businesses and their advisers. Halifax is the situs of the Atlantic Provinces Tax Conference, which will be co-sponsored by Dalhousie University.

Our French language conferences will include two Séminaires techniques in Montreal and Quebec city in March and May, the Journées in June, and the Colloque in September. Last fall the governors in Quebec appointed a conference committee to plan events in the province. The members are Pierre Lessard, chairman; Alain Paris; André Tremblay; and a former governor, Guy Fortin.

The Corporate Management Tax Conference is scheduled for Vancouver and Toronto in June. The theme for discussion is selected income tax and GST aspects of the purchase and sale of a business.

Planning is nearly completed for a special two-day conference on tax issues to the year 2000 and beyond. The place and the date are Toronto on January 24-25, 1991. Assistance in organizing it is being provided by Richard Bird, of the Department of Economics, and Jack Mintz, of the Faculty of Management, at the University of Toronto. The objective of the conference is to consider in depth some issues that seem likely to be central in the formation of Canadian tax policy for decades to come. You may recall that the foundation convened a similar conference in 1981 to discuss "Tax Policy Options for the 1980s." The volume of proceedings was adopted for classroom use by universities, which soon exhausted our stock.

Finally, let me remind you that the annual conference will be held in Montreal on November 26-27-28, 1990.

Premises

It was our expectation to take occupancy of our new premises in a building under construction at Queen and Yonge streets on September 1, 1990, on the expiration of our current lease. We have been advised by the developer that construction is behind schedule and that the premises will not be ready for us until early in 1991.

The new accommodation will meet our needs admirably, providing additional space for offices and the library. We will be paying substantially higher rent than we currently pay but still less than the renewal of our present lease would have involved.

Quebec Office

With a view to providing services to foundation members who prefer to conduct their affairs in French, the foundation opened an office in Montreal in July 1987. We changed premises in 1988 and expanded them in 1989. We are now well settled and have nearly completed furnishing the office.

As I mentioned in my comments earlier, a major preoccupation in 1989 was the heavy conference agenda. Also, members of the foundation and the

general public visit or call the office for various reasons—to take out a membership, purchase publications, use the library of foundation materials, and seek information about tax questions. The staff willingly oblige them.

The governors from Quebec, together with a number of strong supporters of the foundation, met periodically during the year to plan and oversee the foundation's activities in the province. They worked closely with the regional director, Louise Lapalme, and her assistant, Danielle Cousineau.

Organizing the annual conference in Montreal in November will, of course, involve the Quebec office.

Revision of the By-Laws

One of the items on the agenda for this meeting is an amendment of the by-laws to provide for the reimbursement to the governors of expenses and liabilities they may incur in carrying out their duties. It is a common provision in corporate by-laws and its inclusion in the foundation's by-laws is appropriate.

The Library

A major asset of the foundation is the library. The 23,000 volumes in the collection constitute a resource that is regularly used by the staff and increasingly consulted by supporters and members of the public. During 1989, there were 2,346 visitors to the library and 2,640 phone calls taken, giving a total of nearly 5,000 reference inquiries for the year. These figures exclude inside staff requests.

Access to the collection has been facilitated by conversion of the card catalogue to a computer database, a two-year project that was completed last August. The next step in automating the library will be to link the Toronto and Quebec offices.

Changes in the Board of Governors

The foundation has been fortunate over the years to have had on its board of governors people who invariably were prepared to contribute generously of their time and energy in advancing the interests on the foundation—in seeking

new members, formulating policies, serving on committees, and planning and participating in conferences—often at considerable sacrifice to themselves. This past year has been no exception. Retiring from the board this year to join the distinguished body of alumni of former governors are the following:

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

We are indebted to all of them, but I know that you would like me particularly to express our appreciation for loyal service to Pat Thorsteinsson, QC, who retires as past chairman. Pat has been a governor for a total of seven years and during this time was active on the various committees and held the posts of vice-chairman, chairman of the board, and past chairman. He has at all times brought wisdom and experience to bear on the problems with which the foundation has been faced. We are grateful to him for his leadership, energy, and insights.

Members of the foundation have received a list of the nominations that, in accordance with our by-laws, are made by the nominating committee, made up of the president of the Canadian Bar Association, John Jennings, QC; the president of the Canadian Institute of Chartered Accountants, Donald Gass, FCA; and the chairman of the foundation. Among the nominees are a number who are not at present governors. They are:

F.G. Beaudoin, CA, Edmonton
Jack Bernstein, Toronto
G.T.W. Bowden, Vancouver
Michael Cadesky, CA, Toronto
P.C. Copeland, FCA, Windsor, NS
D.D. Graham, CA, Vancouver
E.C. Harris, QC, Halifax
N.E. Hopkins, Saskatoon

Guy Lord, Montreal
T.J. Stack, CA, Saskatoon
W.J. Strain, FCA, Toronto
Simon Tardif, Montreal

I extend to them a cordial welcome. Mr. Harris is returning to the board, having served previously from 1967 to 1970.

This report acknowledges, most gratefully, the contributions of the many who make the foundation's efforts possible. The governors, who serve conscientiously as overseers of foundation activities, the authors of our books and articles, the participants in the many conferences we present, and our efficient staff, diligent and dedicated, who add lustre to our efforts. I warmly thank them all.

André Lesage, FCA
Chairman
April 24, 1990

**REPORT OF THE DIRECTOR
TO THE FORTY-FOURTH ANNUAL MEETING OF THE
CANADIAN TAX FOUNDATION,
APRIL 24, 1990**

This report is a record of the research and publication activities during the past year. As the details will make clear, it is a record of continued growth in the scope and effectiveness of the research undertaken by the resident staff or commissioned to outside experts and in the publications that the foundation issues. It is these activities, of course, that justify the labours of its staff and the substantial sums of money it spends.

Research

The research program entails studies of issues of major importance in the fields of taxation and government spending. At a time when the age-old reluctance of the citizen to pay higher taxes seems to have reached its zenith as a result of tax increases and the advent of the GST, and there is a pervasive feeling that the proceeds of higher taxes would in any event be wasted, carefully prepared, well-founded analysis of tax and expenditure problems can serve a useful purpose by clarifying the issues, helping to inform the public, and contributing to the development of sound policies in these areas.

The foundation has forged strong links with the accounting and legal professions, the business and academic communities, and government, and can draw on a wide range of talent in identifying issues for study and in carrying out projects. In formulating a research program, we focus not only on matters of current interest but also seek to anticipate tax and expenditure issues of the future. When new issues come to the forefront, and new decisions must be made, it is important to have solidly documented research readily available.

Publications

Our extensive and varied publications provide the main channel for communicating the foundation's research findings and conference proceedings to our members and the general public.

Publications take a number of forms, including the bi-monthly *Canadian Tax Journal/Revue fiscale canadienne*, monographs, reports of conference proceedings, handbooks on public finance, indexes to our publications, and others.

To aid dissemination, a regularly revised list of books in print is published in the *Journal/Revue*. Also, request cards advising members of forthcoming monographs and other books are contained in the *Journal/Revue*. To obtain copies without charge at the time of issue, members need only submit the request card.

The magnitude of our publishing operation is apparent from our output in 1989. We published 6,500 pages, printed 114,000 volumes of 17 titles, and also produced 8 reports of the proceedings of regional and special conferences that ran to 4,700 pages.

Let me now be more specific about our research and publications programs.

The mainstay of our publications is the *Canadian Tax Journal/Revue fiscale canadienne*, now in its thirty-eighth year. It has long since enjoyed the reputation of the nation's foremost journal for professional discussion of taxation. Its contents include not only articles but also nine features, which have established themselves as essential reading for all who are interested in the subjects they deal with.

One of the features is International Tax Planning, which first appeared in the January-February 1976 issue. The editor of this novel, innovative undertaking was Robert D. Brown, FCA. In the intervening period, it has deservedly attracted a large corps of readers. After 14 years of exemplary service, Mr. Brown has relinquished his position as editor. He has earned our deep appreciation for the enlightenment he has brought to the Canadian tax community through the pages of the *Journal/Revue*. Our regret at his departure is tempered by the fact that the feature will be in the capable hands of his colleagues at Price Waterhouse, Robert J. Dart, FCA, and David G. Broadhurst, CA.

The decision was taken last year to expand the French language content of the *Journal/Revue* by publishing the popular feature Personal Tax Planning in both official languages. Our francophone members have responded warmly to this development.

The thirty-fifth consecutive issue of *The National Finances*, our annual analysis of the federal government's revenues and expenditures, was distributed to members last month. This handbook has established its importance as an invaluable reference for practitioners, academics, and government officials, and is a staple of university courses in economics and public finance across the country.

Copies will be sent to all members of the House of Commons again this year in the hope that they will find this compendium of information to be of assistance as they face the difficult task of developing appropriate policies with respect to expenditure restraint and deficit reduction.

Provincial and Municipal Finances is our biennial book that analyzes the revenues and expenditures of provincial and local governments. The fourteenth edition will be published next month. In recent years, public attention has been concentrated on federal revenues and expenditures, as the central government struggles to bring its spending and deficit under control. The importance of provincial and local governments is often overlooked. Yet the operations of these two levels of government have more immediate and direct impact on the average Canadian than those of the federal government.

The supplementary index covering 1988 foundation publications was issued last month. It serves, of course, to make the wealth of material in these volumes more readily accessible. The 1989 supplementary index and the next five-year cumulative index, covering 1986-1990, will, for the first time, include citations of papers delivered at the foundation's regional conferences.

Other publications distributed to members over the past year include the reports of proceedings of the Corporate Management Tax Conference and the annual conference. Next week, we will be sending to the printers the manuscript for *1989 Tax Developments*, which is a compilation of tax developments in Canada as reported in the *Journal/Revue* feature Checklist.

Four monographs have been added to our series of tax papers, maintaining the pace of recent years. The first is *Oil and Gas in Canada: The Effects of Domestic Policies and World Events*, by John F. Helliwell, Mary E. MacGregor, Robert N. McRae, and André Plourde. The oil and gas industry in Canada has experienced turbulent times during the past 25 years. Major events include the oil price shocks in the 1970s, measures to control prices of crude oil and natural gas, the national energy program in 1980, the western accord in 1985, and the recent steep decline and partial recovery in world oil prices. This study presents an overview of the evolution of Canadian oil and gas policy since the

early 1960s and the key developments in world energy markets. The authors analyze the impact of those events on the Canadian oil and gas industry and evaluate the actual policy regimes adopted as well as feasible alternatives that might have been introduced instead. They conclude by drawing some lessons from these experiences that should assist government leaders in formulating energy policies for the future.

The second monograph is *The Economic Impacts of Tax Reform*, edited by Jack Mintz and John Whalley. It is a report of the proceedings of a conference at which public finance economists, tax lawyers, and tax accountants were invited to evaluate the various tax reform proposals that were published in the Department of Finance white paper in June 1987. The conference was convened by the foundation, the John Deutsch Institute at Queen's University, and the Department of Economics at the University of Western Ontario.

The third monograph is J. Harvey Perry's massive study—running to more than a thousand pages—*A Fiscal History of Canada—The Postwar Years*, which chronicles and comments on major Canadian fiscal developments during the past four decades. In his glowing review of the book, newspaper columnist Douglas Fisher described it as a “prize” and stated that it was “the most useful paperback to reach me in years.... Literally it lets me toss out almost a filing cabinet of old federal and provincial budgets and swatches of tax reports, briefs, and acts.”

Taxes impose costs beyond the amount remitted to the government. The personal income tax, for example, includes compliance costs to taxpayers and third parties (such as employers and financial institutions) as well as the administrative costs that are borne by the federal and provincial governments. Information on the magnitude and characteristics of these largely hidden costs is provided in François Vaillancourt's recent study for the foundation, *The Administrative and Compliance Costs of the Personal Income Tax and Payroll Tax System in Canada, 1986*. Apart from this inquiry, the subject has gone virtually unexplored in Canada.

Four other studies have been completed and are at various stages in the publication process. The increasing interdependence of Canada with the rest of the world is reflected in Catherine Brown's study that focuses on the tax aspects of the transfer of technology to seven Pacific rim countries—China, Indonesia, Thailand, Malaysia, Singapore, Hong Kong, and Taiwan. It examines the tax issues associated with the transfer of patents, trademarks, copyright, and know-how, as well as technical service fees and charges.

Few public policy issues have preoccupied the media, politicians, and the citizenry as has the GST. In the furious debate that has raged in recent months, there have been relatively few dispassionate analyses of the strengths and weaknesses of the tax, and comparisons to the tax it is to replace. The study by John Whalley and Deborah Fretz, *The Economics of the Goods and Services Tax*, attempts to help fill this gap, in the hope that some of the analysis of the issues raised will endure beyond present debates. The study asks to what extent we are replacing one flawed tax with another. It also suggests that there may have been more room for debate than actually took place, both over whether some of the worst deficiencies of the manufacturers' sales tax could have been corrected by modifying instead of eliminating the existing tax, and whether other alternatives to the MST beyond the currently proposed GST may have made sense.

Brian Arnold recently completed his study involving an examination of discrimination against non-residents and foreign activities in the Canadian tax system. According to Professor Arnold, there are at least 45 provisions of the Income Tax Act that discriminate in favour of Canadian residents or against non-residents. These provisions operate at virtually every stage of calculation of the tax payable. The study identifies the discriminatory aspects of the Canadian income tax system; it isolates, for more detailed analysis, a number of specific provisions clearly intended to protect the Canadian cultural identity; and finally, it examines the rules of domestic and international law concerning discrimination.

Earlier this month, we received the manuscript for the fifth edition of *Taxation in Canada* by J. Harvey Perry. Previous editions have always been on our bestseller list and, invariably, our stock of copies has been exhausted before all orders have been satisfied. We look to publication later this year.

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

Several other projects are currently under way. The main source of tax revenue of municipal governments, the property tax, is the subject of a study by Harry M. Kitchen. In it, he will describe the current state of property taxation in Canada, establish an analytical framework for evaluating it, conduct some empirical investigations into various aspects of the property tax system, undertake interprovincial and intraprovincial comparisons, and make suggestions for change.

A subject of widespread interest to members of the Canadian business community and their professional advisers is the tax treatment of interest, both the income side and the deduction side. A study of this area is appropriate at the present time for a number of reasons. First, interest deductibility is a matter of deep concern to taxpayers and to the departments of National Revenue and Finance. A proposed amendment to the Income Tax Act, 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 issue and the alternative policy choices and their consequences. Brian J. Arnold is the principal researcher.

Glenn P. Jenkins has undertaken a study of the efficacy of flow-through shares as a method of financing and of the use of limited partnerships.

Thomas A. Wilson and Peter Dungan are proceeding with their study, *Evaluating Fiscal Policy in Canada*. The purpose of this project is to develop a consistent framework for the analysis of fiscal policy and to analyze recent Canadian policy within that framework. Also, once the analytical framework is established, it would be a relatively straightforward matter in the future to produce analyses of the impact of budgetary policies shortly after budgets appear. A chapter discussing macroeconomic effects of tax reform in Canada was published in the March/April 1989 issue of the *Journal/Revue*.

François Vaillancourt is proceeding with his study of the financing of workers' compensation boards in Canada. Their financial significance is impressive. In 1986, they collected \$3.5 billion in premiums from employers and had total assets of about \$10 billion. The 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 appropriate policy recommendations.

"Intergovernmental fiscal relations in Canada" is the subject of a study by Robin Boadway and Paul Hobson, who are revising and extending one of the early volumes in the foundation's series on financing Canadian federation, *Intergovernmental Transfers in Canada* (1980). 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 agreements with special attention to the implications of a national sales tax.

Three new projects were recently commissioned, one on wealth taxation, another on international income taxation, and the third on future tax policy.

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 (GDP) and of total taxes declined substantially in the early 1970s and have remained relatively constant. Canada has no net wealth tax. The 1989 federal tax reform decreased taxes on income and increased taxes on consumption. A consumption tax, relative to income taxation, 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 in the light of (1) the available information on the distribution of wealth in Canada, (2) anticipated effects of wealth taxes based on theory and evidence, and (3) the experience of other countries. Roger S. Smith has undertaken this project.

In 1986, the foundation published *The Taxation of Controlled Foreign Corporations: An International Comparison*, by Brian J. Arnold. It has been widely regarded as a major contribution to international income tax literature. Building on this work, Professor Arnold's new project will examine the legislation of several countries that deals with the taxation of non-controlling interests in passive foreign investment funds. The legislation can be characterized as anti-avoidance legislation, which is intended to prevent taxpayers from avoiding a country's controlled foreign company rules (in Canada, the foreign accrual property income rules).

I mentioned earlier in my remarks that, in the selection of research projects, we seek to anticipate the major tax and expenditure issues of the future. In furtherance of this objective, the foundation is convening a conference on taxation to the year 2000 and beyond, which was mentioned by the chairman. As he pointed out, the conference will consider in depth some issues that seem likely to be central in the formulation of Canadian tax policy for decades to come. That is, the focus is on neither the issues of the day (for example, the goods and services tax) nor the perennial issues of tax policy (for example, the choice of income tax or consumption tax) but rather on a set of issues that we judge will play pivotal roles in the development of tax policy in the next few decades. The particular topics selected have been 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 appears to exist in the Canadian professional and academic communities to make a useful contribution at this time. In each case, the papers will not only focus on past experience and the present situation but also will look forward to the next decades and discuss how the developments in the particular subject area are likely to affect, and to be affected by, the tax system.

The first two papers are largely concerned, from different perspectives, with the increasingly pressing issue of the role of taxation policy with respect to the environment.

Two other papers are concerned with different aspects of taxation viewed as part of social policy. One deals with the increasingly important question of the interaction of the tax and social insurance system (including health, pension, and unemployment insurance). The other focuses on the treatment of different household units under our tax and transfer systems at both the federal and the provincial levels.

Additional papers deal with the interaction between taxation and industrial structure—the way in which different tax policies affect the structure (and performance) of Canadian industry through influencing, for example, debt versus equity financing, mergers and acquisitions, industrial concentration, and so on.

Another paper considers the probable shape of the tax system in this increasingly service-dominated world—in particular, the potential importance and elusive nature of the financial services sector.

The last two papers are concerned with international themes—one deals with “tax competition or tax harmonization?” and the last paper discusses the politically feasible range of tax policy options likely to be open to present and (near) future Canadian governments.

A number of other projects are under consideration.

Staff

There were several departures from the foundation’s staff and a number of new appointments during the year.

Deborah Ort and Terry Segal resigned as research associates, Deborah to join the tax department of Arthur Andersen & Co. and Terry to get married. We welcomed Jim Groves to the ranks of the research group in November. His first contribution to the *Journal/Revue*, an article on public support for broadcasting in Canada, will appear in the March-April issue. Lyse Kobayashi, assistant to the librarian, left the staff last fall. In her place we are very pleased to have Carol Mohammed, who became a full-time employee yesterday. For the past two years she served on a part-time basis, first as a participant in the project of computerizing the library card catalogue and latterly as assistant to the librarian.

Susan Wong resigned from the secretarial staff. Her able successor is Jean Van Hezewyk. Also, we appointed an assistant to the regional director of the Quebec office. She is Danielle Cousineau, who is providing much needed support. Members of the research staff are well-known to many foundation members—David B. Perry, Millie Goodman, and Mary Gurney. Over the decades, foundation members have benefited enormously from the efforts of this dedicated group, who are responsible for some of our best-known publications.

The chairman adverted to the productive year for the Quebec office. The regional director is Louise Lapalme, who has dealt admirably with the myriad tasks she has assumed.

The duties of the treasurer, Norm Witherell, include preparing financial statements, investing foundation funds, and overseeing membership affairs. A major preoccupation last year was working with our consultant to automate successfully the foundation's membership records. Norma Forrester, the manager of membership records, participated fully in this endeavour. The new program should facilitate the constant revision and updating of records that is involved in maintaining accurate data about our nearly 9,000 members.

The smooth functioning of our conferences is a tribute to the efforts of the conference secretary, Pat Hillmer, and her long-time assistant, Marg Brown. Pat is also the foundation's corporate secretary and, hence, is responsible for sending out notices, taking minutes, and looking after other administrative details.

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

our typesetters and printers. She is fortunate to have the assistance of Leesa Armstrong.

The heart of the foundation is the library, which, as you have heard, is used with increasing frequency by members, visitors from other institutions in Canada and abroad, students, and academics. Ron MacLeod is responsible for maintaining our growing collection of tax and public finance material as well as assisting visitors and responding to telephone inquiries. His efforts have brought letters of appreciation from many users.

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

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

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

D.J. Sherbaniuk
Director
April 24, 1990

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