

So far as Ireland is concerned, they were requested to consent to an amendment by reason of our settling on a fixed rate of withholding tax of 15 per cent. They had enjoyed a situation where, in certain relationships of a percentage of voting shares, they would have a 5 per cent withholding tax instead of 15. Now, the Irish were reluctant—I think that is the right word—to amend the existing agreement, for two reasons. One was that they had a few other matters that they wanted to put forward. Secondly, they felt it desirable to consider the work of the organization which had developed, which had been in existence for some time in Europe, and was then enlarged by the addition of the United States and Canada into what is called O.E.C.D.—the Organization for Economic Co-operation and Development—which is really now, and probably has been since 1960, made up of most countries in the world who are interested in the business of development of trading among countries. The fiscal committee of O.E.C.D. had evolved what may be called a standard form of tax convention. I can say that this standard form in skeleton has been pretty well followed in the tax conventions which you have before you now. The Irish felt that, since this had been set up, the treaty should be pinned upon the skeleton of the standard form settled by the O.E.C.D.

Now, as to the provisions of these treaties, first I want to tell you about what the United States treaty does, because it has only one item. It deals with a situation where you have a company organized in Canada which afterwards becomes a nonresident company by taking the necessary steps to change its head office and relocate itself somewhere outside Canada and the United States. It would then do its housekeeping and its business operations from its new location.

As a result of that, the United States withholding tax of 15 per cent applied to dividends and interest being paid out of the United States to this company, because this company was a Canadian company in the sense that it had been organized in Canada. The United States general rate of withholding tax is 30 per cent. This procedure had been adopted—I was going to say fairly generally in Canada, but perhaps that is the wrong description. Perhaps I should say that there were many cases where use was made of this method of incorporating a Canadian company and then transferring residence so as to accomplish what has come to be known in the income tax branch as the practice of stripping

dividends, and things of that kind, and getting the benefit of the 15 per cent rate.

The amendment in this supplementary tax convention provides that in such circumstances where the Canadian company is a nonresident of Canada, the 15 per cent convention rate will not apply, but that the general 30 per cent rate will apply. That, of course, will increase the tax revenues of the United States. So far as Canada is concerned, however, it does not change in any way its tax revenues.

In the meantime, we amended our own law last year. I think you will find that in section 139 (4a) of the Income Tax Act, where we provide that a company incorporated and organized in Canada after April 26, 1965, or if so incorporated before April 27, 1965, and if it carries on any business in Canada at any time in the taxation year, or has done so at any time in any preceding taxation year of the incorporation ending after April 26, 1965, or if it was resident in Canada during such times, then such corporations shall be deemed to have been resident in Canada throughout the whole taxation year.

So we have covered the situation with respect to companies that, as of and from April 1965, are incorporated in Canada. They are barred from taking this sort of proceeding and thereby escaping from Canada into a nonresident status—and whatever may be the tax implications or the advantages. They are also affected insofar as the United States situation is concerned.

There are still quite a number of companies that had achieved their nonresident status before this legislation came into force, and I would say the supplementary tax convention is designed to deal with those. Our amendment last year was designed to bring them back into the fold as full-fledged Canadian corporate residents, if they made any step by way of carrying on any operation in Canada after this critical date.

Now, that is all I have to say about the United States supplementary tax convention. That is all it does.

I should tell you that the United Kingdom agreement is a general treaty covering a wide variety of headings. At this time, in order to expedite the explanation and not wear your patience thin in the course of giving the explanation, I have prepared a memorandum which takes in all the headings that are dealt with in the tax relationships between Canada and these various countries whose tax convention agreements are before us in this bill.