We do not, of course, recommend that such concessions be conferred easily or indiscriminately, because to do so would defeat the treaty development purpose of the proposals.

We have discussed in connection with integration generally the "flow-through" question with respect to foreign source income where the domestic integrated tax system would come into play.

We believe our proposals for a free flow of dividends between domestic affiliated companies would overcome some aspects of this type of problem, and to the extent the foreign tax "flow-through" proposal did not meet the others, if as a policy matter it was felt desirable to improve the after-tax results, additional "flow-through" provisions could be provided if the domestic gross-up and credit proposals were adopted.

We now turn to the objective of curtailing tax avoidance.

The integrated tax system proposal for non-treaty countries would not only provide an inducement for the development of a tax treaty network but at the same time (as the Committee understands it) would also provide a major part of the mechanism for the elimination of the tax haven abuse.

Further, there would be no advantage, other than in timing, to transmuting non-dividend income into dividends by passing the income through a tax haven company; in fact there could be a tax disadvantage where the underlying foreign profits have borne any foreign corporate or withholding tax.

In any event a gross up and credit mechanism would appear to be a necessary device to make the passive income proposals effective.

PASSIVE INCOME. Although we are in sympathy with the government's objectives in this area, we have grave concern about the feasibility of the proposal to introduce rules along the lines of the "Sub Part F" provisions of the United States though the term "Sub Part F" is not actually mentioned in the White Paper. Witnesses have appeared before us and suggested:

(a) that rigorous enforcement of the present Act could reduce the magnitude of the problem of tax haven abuse to acceptable proportions;

(b) the experience of the United States with Sub Part F has been far from satisfactory.

Some of these points might be responded to as follows:

(a) (i) The present Act is not adequate to cope with the problem of tax abuse, not because of any deficiency in system's terms, but because of an inability to obtain the information and enforce compliance. It is cold comfort to determine that a foreign corporation is "resident" and therefore taxable in Canada if there is no adequate method of collecting the tax.