

### *International Conventions*

they setting up tax havens within their own jurisdiction from which Canadians somehow or other do not get any benefit?

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In support of what I am saying, I should like to touch upon the four tax haven countries with which we will enter into tax treaties under this bill. The first country I should like to refer to is the United Kingdom. It may come as a little surprise to members of the House that the United Kingdom is treated as a tax haven country. But one has just to go down the corridor into the library and ask for a booklet on the tax havens of the world in which there is a very interesting section on the United Kingdom and how its tax haven facilities work. I should like to quote a few passages from the booklet entitled: "Tax Havens of the World" dealing with the United Kingdom as a tax haven. Under the heading "Tax Treaty" which is exactly what we are now considering amending with respect to the United Kingdom, it reads:

The United Kingdom has more income tax treaties to avoid double taxation in force than any other country in the world, with more than 80 income tax conventions taking precedence over normal taxation procedures and rates.

One can see that the most advanced country in the world as far as double taxation is concerned and, to some degree, the tax haven concept, is the United Kingdom. That is one of the treaties before us that we are being asked to amend. The booklet to which I referred continues as follows:

—since the new corporation tax became effective April 1, 1973, withholding of income tax has been abolished and United Kingdom companies must deduct the 30 per cent ACT. New or revised income tax treaties since that date generally allow for the shareholder to receive a 15 per cent credit against the ACT. In those treaties not yet renegotiated, the shareholder may receive an adjustment against the ACT by arrangements with the tax authorities. In most treaties the articles treat royalties, interest and technical assistance fees as exempted from withholding tax or the ACT deduction.

The reason I have touched on that, first of all, is that I want to put into context the exact nature of the tax haven found in the United Kingdom. The booklet continues:

The United Kingdom is treated as a tax haven country primarily because of a quirk in the basic concept of the corporation tax.

It goes on to say:

—thousands of United Kingdom companies conduct their overseas activities through domestic subsidiaries that are controlled and managed from abroad. Accordingly, these companies are not resident for United Kingdom tax purposes. In order to satisfy these conditions of management and control outside the United Kingdom the Inland Revenue requires that all directors' and stockholders' meetings be held outside the United Kingdom and that all administration be directed from outside the United Kingdom, which may include the exigency that officials of the foreign parent company abstain from making visits to the "non-resident" United Kingdom company.

This goes on for pages. Also the following is pointed out:

A secondary reason why overseas companies have created foreign-based trading operations in the United Kingdom has been linked to Britain's advantageous remittance tax law which offers a special inducement for executives from abroad to work in England.

Again it is indicated:

Under the United Kingdom Inland Revenue Act, foreign citizens employed in the United Kingdom by non-resident foreign companies (not managed and controlled within the United Kingdom) may take advantage of the "remittance basis" of taxation practised in the United Kingdom and, therefore, minimize the taxes paid to the United Kingdom.

It continues:

The individual qualifying under the remittance basis will not be taxed on transfers of capital to the United Kingdom but will be so taxed where income arising outside the United Kingdom is remitted to the United Kingdom. In the past many foreigners, especially American executives working in England, would arrange financing in their home country, instructing their employers to deposit salaries to their accounts and paying interest charges on the loans, with capital transfers made to employees non-taxable in the United Kingdom.

The point I am trying to make is that we are not listed as a tax haven country. Yet, we are signing many treaties with tax haven countries that, for their own advantage, be it employment, industrial production, banking, finance, or whatever, are exploiting the world market at the present time through the simple facility of creating these tax shelters. Surely the government should be asked to come before committee to give us an overview on this. To what extent is the Canadian government aware of this activity? If they are, to what extent have they considered bringing some of these activities into existence in Canada so that we can have the double-edged advantage of these tax treaties? In principle it is beautiful to be running around the world saying we want to sign these treaties and co-operate because it facilitates trade, expansion and business, but if we are only getting part of the advantage by not structuring some tax incentives or tax havens in this country, I would suggest we are only getting half the apple as opposed to the whole. If members are interested in the full story about the United Kingdom, I invite them to take a look at the book.

Let me go to the other extreme. Another tax treaty into which we are about to enter is with the Republic of Liberia. It is just the reverse contrast. We would be one of the few countries in the world to enter into a tax treaty with Liberia. The same booklet to which I referred reads as follows:

Liberia has income tax treaties with West Germany and Sweden avoiding double taxation. A treaty with Canada has been signed but is not in effect, while a treaty to avoid double taxation on shipping and aircraft income is in force with New Zealand.

We will be the third country in the world that has been courageous enough to sign a double taxation treaty with Liberia. I say that because we must remember that Liberia offers foreign investors and traders numerous inducements to operate there as a tax haven for holding, trading, shipping or manufacturing companies. The booklet indicates:

A modern tax law designed to attract foreign capital is a hallmark of Liberia's tax structure. Under the law a Liberian corporation is not subject to taxes in Liberia if (1) more than 25 per cent of the corporate stock is owned by non-Liberians and (2) corporate income is derived from sources outside of Liberia.

Also the booklet indicates:

—the Liberian minister of finance is authorized to fix the rates on the tax payments withheld to non-residents but in no case may they exceed 15 per cent—

In short, it is a perfectly orchestrated country and administration for the avoidance of taxation through the tax shelter route. The net effect of this is perhaps best spelled out in another book called "The Robert Kinsman Guide to Tax Havens" and is, if you like, the bottom line with respect to Liberia. On page 132 of that book he states: