

Tax Convention

date—of this convention. Otherwise they will not receive the benefit of this convention.

This is in effect a change from a capital gains tax to a 5 per cent deduction at the source, based on net revenue, if any, received from such securities.

Capital gains by Canadian residents derived from sources within the United States shall not be subject to tax therein, provided such Canadians have no permanent establishment in the United States.

There are certain extra-territorial features of the revenue laws of the United States, included not only in the 1941 act but in prior acts of that country, which impinged upon any Canadian company if 50 per cent or more of the income of the Canadian company were derived from sources within the United States. These extra-territorial features also impinged upon such Canadian company paying dividends to a Canadian resident, and also upon any such Canadian company accumulating undistributed income.

These are technical in character and the technical features need not now be mentioned in this general announcement. Those particularly interested should refer to the terms of the convention itself.

All these extra-territorial features, so far as Canadians, and Canadian-controlled companies, are concerned, have been eliminated by the terms of the convention.

Charitable organizations are exempt from deduction at the source, if the organization is a charitable organization within the meaning of the laws of each country, when read together. If a charity is such within the meaning of the United States law only, the terms of which perhaps are a little wider than the Canadian definition of charity, but is not a charitable institution within the meaning of the Canadian law, then the deduction at the source would not be waived. The charitable organization must be such within the meaning of our law as well as within the meaning of the United States law.

All persons in the employ of the dominion or provincial governments, or any political subdivision, agency or instrumentality thereof, whose duties require them to reside in the United States are to be taxed by the Canadian government, while like officials of the United States government, or any political subdivision, agency or instrumentality thereof, residing in Canada and paid from the United States are not to be taxed in Canada.

On the other hand, pensions shall be taxed in the country where the recipient resides and not in the country where the pensions arise. Life annuities also will be taxed only in the country where the recipient resides.

[Mr. Gibson.]

Each country will refrain from taxing any person from the other country, in respect only of compensation for labour or personal services, if such person—

- (a) remains for a period or periods not exceeding 183 days, and
- (b) receives \$5,000 or less in the aggregate during such stay;
- or
- (a) remains for a period or periods not exceeding 90 days, and
- (b) receives \$1,500 or less in the aggregate during such stay.

This is intended to exempt a number of persons who are for a short time in industrial activities, but the convention by special mention does not grant exemption in respect of professional earnings such as those received by actors, artists, musicians, and professional athletes who are taxable in the country in which they exercise their skill.

The income derived from the operation of ships or aircraft shall be taxed in the country of registration.

Students or business apprentices are exempt from tax in the country in which they are studying in respect of remittances received by them for the purpose of their maintenance or studies.

Any actual case of double taxation within the purview of this agreement, and not otherwise dealt with, may be dealt with by consultation and appropriate adjustment between the countries.

Each country undertakes to supply the other country with information in respect of dividends, interest, rents, royalties and other periodic payments passing from one to the other.

There is provision in special cases, and at the request of either government, for consultation where the authorities of one country might desire information in respect of any particular taxpayer's activities in the other country.

Finally, there is provision for equality of treatment, namely that the citizens of one of the contracting states residing within the other shall not be subject to the payment of more burdensome taxes than those which are borne by the citizens of the other contracting state, or in other words, citizens of the United States within Canada are not to be discriminated against by more burdensome taxation than that imposed upon our own citizens within Canada.

It should perhaps again be stated that all moneys that have been deducted and collected at the source under the 16½ per cent rate that arose immediately after the repeal of the former convention on the 29th April last, and all moneys collected under the 27½ per cent rate as provided by the 1941 United States