Trinidad and Tobago and a protocol to the current income tax treaty between Canada and Hungary.

[*Translation*]

These tax conventions or treaties, as they are also sometimes called, and their amending protocols, are similar to other conventions already approved by this House.

Tax conventions have two main purposes: firstly, to avoid double taxation of income and, secondly, to prevent tax evasion. However, not all tax conventions require Parliament approval. Certain tax agreements require no legislative measure when the Income Tax Act already contains equivalent provisions.

For example, an agreement respecting the profits of airline and shipping companies and confirming the exemption they are entitled to under the Income Tax Act would not require legislative authorization.

On the other hand, double taxation conventions all require parliamentary approval, because they change the effect of national legislation, specifically the Income Tax Act. The same criteria apply to amending protocols.

This is why we are considering Bill C–105.

A few minutes ago, I mentioned conventions that have already been approved. Those in Bill C–105 are no different. They are part of a series of tax conventions dating back to 1971, when reform of our tax system necessitated Canada's developing a network of double taxation treaties with other countries.

[*English*]

Bill C–105 continues along this path. Canada now has double taxation treaties in place with 55 other countries. This point brings me to a related topic, the selection of countries for reciprocal tax treaties. How does the government decide with which countries to negotiate tax treaties? Are there benefits to having tax treaties with other countries? Let me take a moment and review this process. Canada does not need any legislative authority to negotiate and sign a tax treaty relationship with a country. Legislation comes later, such as with this bill, when measures in the ensuing convention differ from those affected by our Income Tax Act, as I have explained.

• (1250)

A tax treaty with a specific country is usually pursued because the government wants to encourage foreign investment in Canada and investment by Canadians abroad or as a result of budget measures.

The 1992 budget announced Canada's willingness to reduce its withholding tax on direct dividends to meet with the national norms. The 1993 budget subsequently announced Canada's willingness to eliminate the withholding tax on specific royalties to ensure the competitiveness of our technological industries.

There are three primary factors to be considered when negotiating a tax treaty with a country: how much Canadian investment is planned for that country, Canada's desire to encourage economic reforms there, and that country's interest in expanding its trade and economic relations with Canada. The tax treaties in Bill C–105 meet each of these three criteria.

Bill C–105 is neither earth shattering nor housekeeping legislation. Rather, it is the workaday legislation that addresses the dual issue of fair taxation and good international relations.

In this era of governments reappraising their roles, particularly their economic roles, and an increasingly interdependent open, global economy, reciprocal trade tax treaties make sense. They certainly do not hinder economic competition, which for Canada is an important factor of life.

Canada is above all a trading nation and we must keep expanding our trading boundaries and therefore our relationships with other countries.

A few items apply to all four treaties in this bill. First, while tax treaties vary from one country to another, these proposed conventions are similar to other treaties already concluded by Canada. They are patterned on the model double taxation convention prepared by the Organization for Economic Co–operation and Development.

Second, each treaty has been negotiated individually and has taken into account the relevant policies in each country.

Third, Bill C–105 provides an equitable solution to the double taxation problems that exist between Canada and these countries. Double taxation occurs when international transactions result in the same income being taxable in the hands of the same person by more than one nation.

In addition, the protocol brings the convention with Hungary in line with current Canadian tax policy, particularly with regard to the rates of withholding tax.

Here are some of the technical aspects of Bill C–105 that apply to the treaties with Estonia, Latvia and Trinidad and Tobago. There will be a withholding tax rate of 5 per cent on dividends paid to a parent company and on branch profits and 10 per cent on interest and royalties and management fees in the case of Trinidad and Tobago. A 15 per cent rate of withholding tax will apply on other dividends.

The conventions also provide for a number of exemptions in the case of interest. For Estonia and Latvia a zero rate will apply to interest paid to the governments, the central banks, the Export Development Corporation and from sales made on credit.

For Trinidad and Tobago a zero rate will apply to interest paid for government indebtedness and on loans or credit from the Export Development Corporation or its equivalent there and to interest paid to pension funds.