

No. 57/5

INTERNATIONAL TAX PROBLEMS

Statement by Miss Kathleen Bowlby in the Second  
Committee of the United Nations General Assembly,  
New York on February 7, 1957.

Firstly, I would like, on behalf of the Canadian  
Delegation, to join other members of this committee in  
expressing to the Secretary-General our thanks and compliments  
on having produced as objective and workmanlike a document  
as that entitled "International Tax Problems--Taxation and  
Capital-Exporting and Capital-Importing Countries of Foreign  
Private Investments" (Document E. 2865 of May 23, 1956).

As you all know, Canada both imports and exports  
capital but, on balance, it is a capital-importing country.  
As Document E.2865 points out, major capital exporting coun-  
tries have in fact greatly reduced their tax claim on income  
derived from foreign investments, thus going a long way towards  
meeting the wishes of the less developed capital importing  
countries. Canadian tax legislation is as liberal in this regard  
as the legislation of any other developed country. In fact,  
I may even say that, as far as Canada is concerned, we have  
probably gone beyond the recommendations envisaged by the committee  
on international fiscal problems.

In view of our past experience in Canada, the Canadian  
Delegation would suggest that countries wishing to attract  
private foreign capital will find it desirable to design their  
tax systems so as to provide adequate incentives and safeguards  
to foreign investors.

For record purposes, I would like to review some of  
the principal features of the Canadian tax system, which are  
relevant to this debate. These are, of course, mentioned  
in Document E.2865. As selective tax incentives, the following  
concessions have been made: Canada exempts from taxation all  
intercorporate dividends, including dividends transferred from  
foreign subsidiaries to parent Canadian companies. Thus there  
is no tax deterrent in Canada to the making of direct foreign  
investments by means of the establishment of foreign subsidiaries.  
(This method accounts for a large proportion of foreign investment  
of all countries). This concession is granted irrespective of  
whether or not the profits of the foreign subsidiary are taxed  
in the country where it operates, and removes all discrimination  
between the tax treatment of dividends of foreign subsidiaries  
and domestic subsidiaries. It does not offer any special  
incentive to foreign investment as opposed to domestic investment.

The profits of a corporation resident in Canada  
which carries on all of its operations abroad are exempt  
from Canadian corporate income tax. By this concession, not  
only Canadian but also foreign funds can be channelled tax  
free through such corporations into foreign countries. This  
concession, unlike the above, can be considered as offering  
a special tax incentive to foreign investment.