holders. In addition, since "flow-through" credit will be available as a credit against Canadian withholding taxes, it would remove a large standing problem facing Canadian companies operating extensively abroad in that foreign investors in the shares of such Canadian companies would not suffer Canadian withholding tax if the flow through credit was sufficient, as in most cases it would be.

In the case of Canadian-controlled foreign corporations in a non-treaty country the situation would be the same under the White Paper proposals as for such a company in a treaty country, except that upon repatriation of profits, if the level of tax had been less than full Canadian corporate tax, it would be brought up to the Canadian level. This appears to us to be reasonably fair treatment, and one that would permit foreign corporations controlled by Canadians to operate in non-treaty countries without being at a disadvantage with domestic competition in those countries.

It seems clear to the Committee that the White Paper proposals for distinguishing between treaty and non-treaty situations would, by and large, produce reasonable tax results for foreign-source income of Canadians.

Many witnesses have pointed out to us that the effect of the White Paper proposals might be to discourage Canadian investment in less developed countries, a policy which might be considered to run counter to Canada's obligations and policy in the international sphere. This would be where such countries offered attractive tax incentives but were not prepared to enter into a bilateral tax treaty with Canada.

The reasoning is that the gross-up proposal for non-treaty country source income would reduce the effect of the tax incentive or, in effect, it would put some of the tax forgiven by the developing country into the Canadian Treasury, just as occurs now with Canadian incentives going to some non-residents. The developing country as a result may not extend the tax incentive.

There is, of course, a counter argument. It is that the Canadian gross-up for repatriated income would tend to work against repatriation of profits and to work in favour of the re-investment of profits in the developing country, which could well be considered by such country as advantageous. The developing country which wanted to overcome the idea of its tax incentives flowing into the Canadian tax coffers could enter a treaty with Canada.

There might be instances, however, where the treaty route would not be feasible and where Canada felt it was in its interest to have a Canadian company invest in a particular underdeveloped country and to enjoy any tax incentives offered there. In these circumstances we suggest that on a selective basis certain developing countries, or their incentives be treated for tax purposes as if a treaty existed or as if the full rate of corporate tax in that country had been paid.