

2. No provision has been made in the proposed legislation to allow a taxpayer to apply losses sustained in one year in respect of a passive income source against passive income "earned" in other years under a loss carry-over provision.

Even if the assimilation of passive income with diverted income could be justified, the above-described defects should be rectified.

B. Dividends received from foreign affiliates

Your Committee is also concerned with one other matter that is inherent in the proposals relating to international income. It is intended that the treatment to be accorded to dividends received from foreign affiliates will differ according to whether the foreign affiliate is, or is not, located in a country with which Canada has a tax treaty.

Your Committee has difficulty in appreciating the reason for this difference in treatment. Until such treaties are negotiated, uncertainty will prevail. This can only have an unsettling effect on our trading and business operations abroad. Quite apart from this, it offends your Committee that business decisions should be influenced by the government's success, or lack of success, in negotiating tax treaties. Our international trading position should not be either jeopardized or used as a means of bargaining between governments.

In this connection, while the Committee is aware of the Government's intention to provide tax-sparing relief with respect to operations established in developing countries pursuant to commitments entered into prior to 1976, nevertheless, we cannot agree with the taxing of dividends from affiliates operating in non-treaty countries. Many of these countries are developing nations which offer tax incentives to foreign corporations. Canada should not tax away these incentives and reduce their value to Canadian corporations.

C. Other considerations

As a result of the foregoing proposals, the after-tax return to Canadian international corporations from foreign business operations will be reduced and their competitive standing in world markets will be prejudiced. If this occurs, the effect may be to discourage foreign business operations and, having regard to Canada's dependency on world trade, the curtailment of these operations can only have an adverse effect on our own