

Hon. Mr. BENCH: You say, as I understand it, that a person holding shares in a United States parent of a wholly-owned subsidiary would have an incentive to move to the United States because the rate of tax which he is called upon to pay on the earnings of the wholly-owned subsidiary is less in the United States than in Canada?

Hon. Mr. McLEAN: No, it is in Europe where they do not have the double dividend tax. Many of these companies are controlled in Europe. Their stocks are on the Amsterdam and London exchanges—or rather, I should say that they were; most of them are probably on the London exchange alone now. Europe encourages foreign investment. Say I am a shareholder in Canada holding stock in some company here—it might be the Booth Company or the Eddy Company—and I move over to London, I am not taxed the same as if I had stayed in Canada. I make a gain, I have an advantage, although my investment is in the same company, because Europe does not have the double dividend tax. But the United States has, although it is not nearly as heavy as it is here.

Hon. Mr. BENCH: Does the exemption between a wholly-owned subsidiary and its parent apply regardless of the residence of the parent company?

Hon. Mr. HAYDEN: Between one Canadian company and another it is a matter of law, but where the international element comes in it is a matter of convention.

Hon. Mr. BENCH: If you were a resident of Holland holding shares in a Dutch parent of a wholly-owned Canadian subsidiary, you would not get the benefit that you suggest, would you?

Hon. Mr. McLEAN: You would be subject to the laws of Holland, whatever they are. At the present time I do not know whether Holland has the double dividend tax that we have.

Hon. Mr. BENCH: But the wholly-owned Canadian subsidiary would have to deduct at the source the tax that it was paying to the Dutch parent, would it not?

The CHAIRMAN: Perhaps Mr. Stikeman should answer on that point.

Mr. STIKEMAN: In certain cases the Canadian wholly-owned subsidiary would be required to deduct the tax going to the parent in Holland, assuming that Holland has not got a reciprocal arrangement with us for exemption, and assuming that the Canadian wholly-owned subsidiary is the kind of company which we call a non-resident-owned investment corporation. Section 9B, subsection 12 (a) of the Income War Tax Act says:

Dividends paid or deemed to be paid by Non-Resident-Owned Investment Corporations

That is, Canadian wholly-owned subsidiaries.

shall not be taxed under subsection 2 of this section,

That is the subsection which imposes a tax of 15 per cent on dividends that go out of Canada.

provided that there has been paid in respect of the income earned between the 1932 fiscal period and the fiscal period first taxed by reason of election under subsection 4 of section 9 of this Act, or in respect of dividends equal in amount to the said income, an amount of tax equal, in the aggregate, to 5 per centum of the said income.

Hon. Mr. BENCH: What does that mean in plain language?

Mr. STIKEMAN: This means that dividends paid outside of Canada by a Canadian company which is of the kind defined as Non-Resident-Owned Investment Corporation by Section 2 (1) (p) of the Income War Tax Act, which, I