CANADA

House of Commons Debates

OFFICIAL REPORT

Thursday, March 5, 1942

The house met at three o'clock.

TAXATION

CONVENTION BETWEEN CANADA AND THE UNITED STATES SIGNED AT WASHINGTON MARCH 4

On the orders of the day:

Hon. C. W. G. GIBSON (Minister of National Revenue): Mr. Speaker, for the information of the house I would like to make the following announcement:

A tax convention was signed at Washington on the 4th day of March between Canada and the United States for the equalization of tax deductions at the source, for the avoidance of double taxation, for the prevention of fiscal evasion and for the general promotion of the flow of commerce between the two countries.

This convention follows along the lines of the previous convention which existed from, and during, 1936 until April of 1941.

Deduction at the source in the United States was increased in 1941 to 27½ per cent on dividends, interest, rents, royalties and other periodic payments coming to residents in Canada. The present convention reduces this to 15 per cent as and from the first day of January, 1941. Canada also deducts 15 per cent in respect of interest, dividends and royalties going to the United States, so that there now exists substantial equality of deduction at the source between the two countries.

Individuals, resident in Canada, who are not citizens of the United States, are not subject to the graduated rates of tax in the United States and are not required to file United States returns, unless they have an office or place of business therein.

For parent companies in Canada, receiving dividends from wholly-owned subsidiaries in the United States, the tax deduction at the source is reduced to 5 per cent. Dividends from Canadian subsidiary companies are, as heretofore, transmitted to parent companies in the United States free of any tax deduction at the source, but the Canadian government will be free to tax these dividends as it chooses, at a rate not exceeding 5 per cent.

As the convention comes into force on the first day of January, 1941, a refund will be made of all taxes deducted at the source in excess of the said 15 per cent or 5 per cent rate, without application being made therefor, as the refunds will be made by direction of the government of the United States through the medium of corporations and institutions which initially made the deductions.

The convention shall remain effective for a period of at least three years in respect of all its features, and continuously beyond the three years until at least six months' notice of termination has been given by either country, in which case the termination becomes effective on the first day of January following the expiration of the said six months' period.

However, after the fixed period of three years, the rate of 15 per cent may thereafter be altered without notice and without affecting other parts of the agreement, as it was felt that neither country wished to preclude a change in the tax rates at any time, if a subsequent parliament or congress desired to change them.

Canada for some time has been making representations in connection with tax claims raised by the revenue authorities of the United States on profits or gains made by Canadians trading in securities and commodities in the United States. The tax was claimed, even though in subsequent years losses were sustained which more than offset the prior years of profits on which the tax claim was based. While the profits were in hand, Canadians had no knowledge of their liability. In fact, there was a general belief that no such liability could be raised or would be raised.

Now by reason of this convention, all such persons may effect a settlement with the United States revenue officials on a basis of paying 5 per cent on the dividend and interest yield received by such investors in the years during which they held the securities, provided they file a request for settlement with the Commissioner of Internal Revenue, Washington, within two years from the date of signature—not the effective