

*Income Tax*

The parliamentary secretary talked about the capital gains tax and how that tax is to be dealt with in the treaties we shall ratify. The capital gains tax is a complicating factor in these treaties and presents difficulties connected with entering into such treaties at present. The interests of capital exporters conflict with those of capital importers. Naturally, those who export capital do not favour a capital gains tax in the country in which they invest. On the other hand, importers see nothing wrong with levying such a tax on the gains accruing from the capital invested. Hon. members must not feel that this is merely a technical bill, that we are doing something similar to what we did in the past. Actually, we are dealing with the first fall-out effects of the tax reform legislation, effects making themselves felt in international treaty agreements of the sort we are now contemplating.

In the committee of the other place, Mr. Cohen, to whom I have referred, said that at present 36 treaties are to be negotiated or are waiting to come forward, and in the end we may need to deal with between 50 and 100 various other treaties. I understand that the committee of the other place scrutinized the matter much more carefully than in previous years.

In amending treaties or entering into new treaties, parliament must exercise special vigilance. We ought to look carefully at the initial treaties and examine carefully any amendments. I say this because we live in a world of complicated capital movement. There are great interchanges of capital; there are great international flows of capital. If we arbitrarily do something which may jeopardize the well-being of Canadian-based international companies, we will act most unfortunately. On the other hand, we must make certain that we clamp down on the activities of companies whose offshore operations are really tax avoidance schemes.

It is our responsibility, as members of parliament, to remain vigilant and oversee what the government does in its international dealings. Certainly, there is little evidence of co-operation between various departments of government. The Department of Finance apparently has gone in one direction, the Department of National Revenue in another, and the Department of Industry, Trade and Commerce in still another. One wonders how much co-ordinated thought went into the drawing up of the treaties we are considering. What, exactly, was the involvement of the Department of Industry, Trade and Commerce? Judging from the testimony taken before the committee of the other place, the Department of External Affairs was not even involved.

I am raising these points because if one examines the broad picture of international taxation two possibilities present themselves: first, Canada has left itself unduly open in the sense that we have allowed the existence of tax loopholes through which huge amounts of money escape untaxed and do not find their way into government coffers. We are losing money because we are too lax. That is one danger and one possibility. The other possibility is that we are too strict; that our companies cannot compete internationally with competitors who are more liberally treated under their country's tax system.

There is evidence supporting the first view. Last June, in Ottawa, the then minister of national revenue in a dramat-

[Mr. Stevens.]

ic speech said that this country is losing, literally, hundreds of millions of dollars in tax revenue as a result of the offshore activities of certain companies. He said that the government wanted to crack down, wanted to hire more investigators and wanted to tighten the entire system. That was said last June. Our newspapers gave extensive coverage to the minister's speech.

The present Minister of National Revenue (Mr. Cullen) also spoke on this subject. The *Globe and Mail* of November 19, 1975, printed an article headlined "Tax dodgers major target of study group". According to the Washington article—

A special task force on taxation has been set up by Canadian and U.S. authorities aimed at catching tax dodgers in both countries.

The force has been told to submit recommendations by the end of this year that may lead to a new Canadian-U.S. tax treaty, revenue minister Jack (Bud) Cullen said.

Canada's aim is to recoup an estimated \$1.6 billion a year that is being lost through tax avoidance or fraud.

Mr. Cullen said that multinational corporations, through dealings with subsidiaries in other countries, are suspected of being the major offenders . . .

"We want to see if we can do this through existing tax treaties," Mr. Cullen said. "If not, we may need a special agreement."

Last February 25, Peter Cook—who wrote the original story concerning the previous minister of finance—wrote another story. He wrote as follows in the *Financial Times*:

The government has shelved plans to close a "tax loophole which costs the country hundreds of million of dollars" because Ottawa cannot afford the expert investigators needed.

Which article is right? Last November we heard that Canada is losing possibly \$1.6 billion through the offshore activities of Canadian-based companies. In February we were told that the government could not afford to hire investigators to check this. If \$1.6 billion was at stake, could not the government afford investigators whose work might lead to recovery of that revenue?

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Last June, the former minister of national revenue, now Minister of Justice (Mr. Basford), said that the practice was costing hundreds of millions of dollars in lost revenue and he promised a series of proposals to significantly strengthen Canada's efforts. Department of National Revenue spokesmen said that the government's austerity measures have put the project "far down the road". I hope that the Minister of National Revenue, who is in the House today, will clarify this. What, in fact, is the truth? Is there a chance that we have been losing \$1.6 billion in revenue as a result of what apparently are tax evasion schemes around the world, and in spite of that fact they have said they cannot get sufficient investigators as a result of this austerity program? Surely that is not a credible story. However, I should like to hear the Minister of National Revenue give his version.

I have indicated that this is one side of the question before us today. When we are considering tax treaties we have to consider whether Canada is, in effect, being ripped off as a result of multinational corporation activity or any other type of international activity concerning tax evasion which should be stopped. But the other thing that we have to question is whether we are being unduly harsh on our own corporations by subjecting them to tax treatment that