

He said: Honourable senators, this motion becomes necessary in order that the Parliament of Canada may formally approve of the convention and protocol for the avoidance of double taxation and the prevention of fiscal evasion in respect of income tax.

It might be well to review briefly the history of these extraterritorial taxes. In 1933, for the first time, Canada imposed a 5 per cent tax deduction in respect of dividends and certain interest payments leaving the country. It was not until three years later that the United States imposed a corresponding tax deduction at the rate of 10 per cent. In 1936, as a result of negotiations, a convention was entered into between the two countries whereby parity of deduction was brought about and the tax fixed at 5 per cent. That rate remained in effect until April, 1941, when Canada increased her tax on dividends arising in the United States to 15 per cent. This automatically abrogated the convention. At that time the law of the United States required a tax deduction of 16½ per cent. In 1941 this tax was raised to 27½ per cent, and during the last three months of 1941 it was deducted at the source from dividends or interest originating in the United States and payable to Canadian resident holders of United States securities.

The discrepancy between the 27½ per cent tax imposed by the United States and the 15 per cent levied by Canada became the subject of negotiation with a view to parity of deduction. The agreement arrived at is embodied in the present convention. Broadly speaking, it reduces the United States tax deduction at the source from 27½ to 15 per cent, which brings it into line with our tax deduction.

Certain extraterritorial features are eliminated. By way of example: the United States law imposed a tax on any Canadian company 50 per cent or more of whose revenue was derived from sources within the United States, if the income was accumulated by a recipient Canadian company, and a Canadian who received dividends from a Canadian company which got 50 per cent of its revenue from the United States was liable to taxation under the United States extraterritorial law. We are excluded from those provisions by the agreement.

Prior to 1936 the United States revenue officials undertook to collect taxes from Canadians who had dealings, through Canadian brokerage houses, with the stock exchanges of the United States. Many claims ante-dated 1929. It was represented that profits or gains made on the sale of securities would be taxable. In many cases the claims were resisted by Canadian taxpayers on the

ground that they were not carrying on business in the United States, and were not subject to the revenue laws of that country. For a time the United States authorities ceased to press these claims, but in 1932 they again undertook to enforce their laws, insisting on the right to tax such transactions. This convention provides for the settlement of these claims on the basis of the 1936 tax rate of 5 per cent in respect of any dividends or interest received from United States securities; and there will be no claim in respect of any capital gains on stock market transactions.

It should be noted that any person in Canada who wishes to take advantage of this convention must within two years from the date of the convention apply to Washington for a settlement on the basis outlined. If he does not do so, the law as formerly asserted by the United States may again be imposed against him.

It is pointed out that if a United States company doing business in Canada, or vice versa, is being taxed on more than 100 per cent of its profits, by reason of the apportionment of profits, it can ask for a conference between representatives of the two governments with a view to securing an adjustment.

The convention also provides for an exchange of information pertaining to the payment of dividends, interest and other fixed periodic payments; and, finally, if the authorities of one of the contracting states are under the belief that the other country is being used as a basis of perpetrating fiscal fraud, a request may be made for special information in relation to the person who is believed to be committing the fraud.

There are minor features of the convention which are self-explanatory. Charitable organizations, if they come within the terms of the American law, are exempted.

The convention will be beneficial to all Canadians who receive income from sources within the United States, not only in the tax reduction from 27½ per cent to 15 per cent, but by reason of the fact that they will have returned to them the amount in excess of 15 per cent that has been collected since April, 1941. It will also be beneficial to the revenues of Canada, inasmuch as amounts which have been deducted in the United States from income taxable in Canada will now come to Canada and be taxable here.

I think that is all I have to say in regard to the resolution.

Hon. C. C. BALLANTYNE: Honourable senators, in view of the complete and full explanation the Minister has been good enough