The agreement provides that copyright royalties and similar payments in respect of the use of literary, dramatic, musical or artistic work, not including royalties for motion picture or television films, shall be exempt from tax in the country of source. Canada exempts such payments to non-residents in its Income Tax Act but, following the termination of the old agreement, Britain has been imposing its standard 41¼ per cent tax on these royalties paid from sources in Britain to Canadian residents. Persons in Canada who receive such royalties will thus obtain relief.

The provisions of the agreement are designed to come into operation on the dates the old agreement ceased to have effect. For Canada this will be January 1, 1965 and taxation years ending in or after 1965. Refunds will be made where taxes contrary to the new agreement have been levied during the period from the date of the termination of the old agreement to the date of the coming into force of the new agreement.

The new agreement will come into force after each contracting government has been notified that all the things that have to be done to give the agreement the force of law in Canada and the United Kingdom respectively have been done. The government of the United Kingdom has notified the government of Canada that it has completed the necessary actions. The agreement will accordingly come into force when the royal assent is given to this bill.

Part II of the bill deals with the supplementary agreement between Canada and Sweden. The purpose of the supplementary agreement is to make several amendments to the income tax agreement between Canada and Sweden signed in 1951. The change of most importance for Canada is the deletion of a provision that prevents a non-resident withholding tax of more than 5 per cent controlled subsidiary company in one of the countries to its parent company in the other. Each country continues to agree not to impose a withholding tax on dividends in excess of 15 per cent. The normal rate imposed by Sweden when there is no tax agreement is 30 per cent. This change will bring the Canada-Sweden agreement into conformity with the announced policy of the Canadian government.

The supplementary agreement will come into force on the date when the exchange of instruments of ratification takes place, and will be effective in Canada for the taxation year 1966 and subsequent taxation years. The effective date for the replacement of the 5 per cent maximum withholding rate by the 15 per cent maximum withholding rate on certain dividends will be April 1, 1966. I am hopeful that the supplementary agreement will enter into force before many more weeks have passed.

• (7:10 p.m.)

Hon. Marcel Lambert (Edmonton West): Mr. Speaker, I am very pleased to see that the government of Canada has come forward with this particular bill, because we were getting more and more anguished cries, and I think legitimate ones, from many Canadians who were holding investments in British concerns—and this of course is something which is to be encouraged. Canadians do hold interests in operations abroad, but since 1964 of course they were subject to the penalties of double taxation. This frankly does not enhance our attractiveness to British investment in Canada or to Canadian investment abroad. There certainly is no incentive to Canadian coporations to establish operations in the United Kingdom. Not only does this have an effect on the industrial and business field, but it has an effect on the thousands upon thousands of new Canadians—that is an odd term—of British origin who settled here after world war II. Many of them are veterans and are entitled to service pensions, either for reasons of disability or otherwise, yet they are very seriously penalized. The fact that they could take their pensions and come to Canada under the former tax agreement was one of the major considerations which led them to come here in the first place.

Because Canada was in some difficulty regarding the high rate of withholding tax in relation to British operations in Canada, this agreement was cast aside and allowed to lapse. This came about as one of the unfortunate consequences of the budget of 1963, and some of the things that followed.

I agree that there may be some argument that Canada should not be prepared to enter into a finite agreement pending the Carter commission on taxation, in view of the fact that Britain has also made some rather drastic changes in its structure, and we may expect more; but as an investor I would find it rather difficult to forecast the future, certainly in respect of long-term investments in growth stocks, and I would not be encouraged by the interim nature of this agreement.