ment which other countries would provide only in treaty circumstances. As a result, Canada has little to offer by way of bargaining points to encourage treaties. While this neutral approach is commendable, it leaves Canadian negotiators at a distinct disadvantage at the treaty table, when trying to obtain treaty advantages for Canadian businessmen investing abroad.

These conclusions led us to endorse the White Paper proposal which draws a distinction between Canadian-controlled foreign subsidiaries operating in treaty and non-treaty countries. In the proposed scheme of things, the tax advantages extended by Canada to Canadians to invest in treaty as opposed to non-treaty countries is a significant positive factor which should encourage other countries to enter bilateral tax treaties with Canada.

At the same time, we recognize that treaties cannot be successfully negotiated with all of the countries in which Canadians invest and therefore our tax system should not put an onerous burden on Canadians investing abroad in non-treaty countries, particularly where these investments represent bona fide and productive commercial ventures.

At present, income of a Canadian-controlled, foreign corporation not resident in Canada, is not taxed by Canada unless and until it is repatriated to Canada and distributed to individual Canadian shareholders or to non-resident corporate or individual shareholders in which latter event Canadian withholding tax applies. In the former event, if the income reaches the Canadian individual shareholder through a tax-paying Canadian corporation, the Canadian individual would receive the benefit of the dividend tax credit with respect to such income.

Under the White Paper proposals, where such foreign corporation is in a treaty country few changes are proposed.

The main differences for controlled foreign corporations in a treaty country are:

(1) "Passive income"* (but not "operating income") would be taxed currently by Canada, whether or not repatriated.

(2) Under the integrated tax system proposed for domestic income flows,** all income from such foreign corporations would be received, as now, as a tax-free intercorporate dividend, but would be taxed upon leaving the recipient Canadian parent company in the same manner as Canadian source income of such company, but with creditable tax limited to 15/85ths of any foreign withholding tax paid (the "flow-through" proposal at 6.27-6.30).

It is the Committee's understanding that the "flow-through" concept proposed for foreign withholding tax would replace to a fairly large degree, in many cases, the benefit which would be lost if the dividend tax credit were to be replaced by the integrated tax system for Canadian individual share-

* Examples given in the White Paper (6.20) are: dividends, interest, royalties, and trans shipment profits.

** See the introduction to Chapter 4 of this report.