1975 the general withholding rate will be increased from 15 per cent to 25 per cent. In general, this thrust in the new tax bill would seem to make investment in Canada considerably less attractive than in the past.

There seems to be excessive rigidity in the section dealing with pension payments to individuals. Under the present act, many payments of a deferred income nature are not subject to non-residents withholding tax except in the case of old age security pensions, social assistance payments made on a means test basis, and the first $1,290 of Canada or Quebec Pension Plan payments. The new bill makes all such payments subject to the non-resident withholding tax rules, that is, to 15 per cent after 1972 and 25 per cent after 1975.

The withholding tax will be broadened to include Canada and Quebec Pension Plan payments in excess of $1,290 per annum, retiring allowances, supplementary unemployment benefit plan payments, registered retirement savings plan payments and deferred profit-sharing plan payments as well as income averaging annuity contract payments and the income portion of other annuity payments. If the non-resident wishes, he may elect to be treated as if he were resident in Canada in respect of all of these payments with the exception of the last two. In that case he will add to his Canadian business and employment income all the payments previously referred to, and compute his Canadian tax payable as if he were a resident of Canada and as if the amount arrived at were his total income. If the tax withheld is 15 per cent or 25 per cent, as the case may be, and exceeds the tax so computed, he could obtain a refund of the excess. The election must be made on an annual basis.

The presumed rationale of this proposal is that most of these payments originated from funds the contributions to which were tax-deductible and, as a consequence, Canada should collect some tax when they are paid. The old age security pension, at $960 plus the first $1,290 under the Canada Pension Plan totals $2,250, which just about equals the single person exemption. This amount would not have been taxable even where the individual was resident elsewhere. These proposals, again, are subject to the renegotiation of treaties with the country in which the pensioner resides and, as already suggested, there is likely to be some hard bargaining in these matters. Whatever is withheld at source in Canada is likely to be eligible for foreign tax credit abroad to the disadvantage of the foreign treasury.

(5:50 p.m.)

This provision will seemingly render more difficult the retiring of our elderly, particularly in countries where there are no tax treaties of significance. Because of the nature of our climate, many people for health reasons must seek a milder climate, with these restrictions. Many of them are of very limited income. It seems that we will be working a hardship on many people who can ill afford it. Presumably, these people will be subject to tax in the country in which they reside, so that if there is no tax treaty real hardship can result.

Regarding the treatment of investments by Canadian taxpayers and the shares of non-resident corporations that can be described as foreign affiliates, the proposed legislation considerably narrows the option because after 1975 the dividends received by a Canadian corporation from a non-resident corporation in which it holds more than 25 per cent of the dividend shares are deductible in computing taxable income. The proposed new laws also provide that after 1975 only dividends from foreign affiliates in countries with whom Canada has new tax treaties will be deductible in computing tax income.

It appears that at a time when the United States is moving to encourage its production and investment, Bill C-259 is tending to have the opposite effect by increasing the rate of withholding tax on investment and passive income to non-residents to 25 per cent although we will need more savings and investments to replace the gap that will be left by the United States' programs. It seems that Canada is attempting to pressure many countries to establish tax treaties; but the chances of this occurring do not seem to be great, considering the present unsettled state of the world.

Some of the thrust of the proposed legislation seems to be designed to provide tax havens from being effective. This is to be commended, but in some respects it may well be a rigid and cumbersome act. In general, the tax proposals in so far as international income is concerned seem to be directed at reducing the outflow of Canadian capital and inflow of foreign capital. It is doubtful if this is the road that we should be journeying on in the 1970s when, presumably, capital will be in short supply.

We must provide a great many jobs for our people. We must provide for those who were born during the 1950s when there was a high rate of birth. We will need all the opportunities and capital we can get to provide jobs for these people in the 1970s. Perhaps after 1980 we can look to a period when job production will not need to be so great, but I suggest the section of the tax reform bill dealing with international income is unnecessarily restrictive. It runs counter to what the Americans are doing. At this time we should be more expansive in our economy and encourage industry to take part in the international financial field.

[*Translation*]

Mr. Lambert (Edmonton West): Mr. Chairman, it is always nice to see in the House the hon. member for Bonaventure-Îles de la Madeleine (Mr. Béchard), whose only task seems to be to say: Agreed . . . let's have it—

Mr. Béchard: —At the right time.

Mr. Lambert (Edmonton West): Sure, at the right time. The hon. member has not yet spoken.

Mr. Chairman, with the consent of the House, I would very much appreciate taking advantage of the dinner hour to nurse a bad cold.

So may I call it six o'clock—

The Deputy Chairman: Is that agreed?

Some hon. Members: Agreed.

The Deputy Chairman: It being six o'clock, I do now leave the Chair to resume same at eight o'clock.

At six o'clock the committee took recess.