

Let me take another example. A group of Canadians own a company that does business in the Netherlands. That company, because it has a principal establishment operating in the Netherlands, will not only be subject to corporation tax in that country, but when the company accumulates money from profits and decides to pay dividends to its several Canadian shareholders, those dividends, when paid to the Canadian shareholders, will be subject to the 15 per cent withholding tax.

Hon. Mr. Macdonald: May I reply to the question asked by the honourable senior senator from Ottawa (Hon. Mr. Lambert)? I think Article IV has a direct bearing on the question. The first part of that article reads:

The profits of an enterprise of one of the states shall not be subject to tax in the other state unless the enterprise is engaged in trade or business in that other state through a permanent establishment situated therein.

Hon. Mr. Lambert: I suppose the explanation is that when foreign capital comes into Canada and establishes an industrial plant here, it becomes a Canadian plant. That is the point.

Hon. Mr. Macdonald: That is the point.

Hon. Mr. Lambert: If a Canadian company has a branch in Holland, are there reciprocal arrangements between the two countries which will enable the branch to exempt itself from taxation in any way? I have in mind a certain Canadian oil corporation which does business in Belgium—honourable senators know the company to which I refer—and I presume it also has branches elsewhere, especially in Europe. Would this convention in any way exempt such a corporation in Canada from taxation on income in a foreign country? That is the point I should like to get clear in my mind.

Hon. Mr. Macdonald: The article to which the junior senator from Ottawa referred, article VII, paragraph 3, deals with that point. The paragraph reads:

Notwithstanding the second paragraph of this article

That refers to the 15 per cent withholding tax.

none of the states shall levy a tax by way of deduction at the source on dividends paid by a company which is a resident of that state to a company which is a resident of the other state, provided that the latter company owns at least 50 per cent of the shares of the former company, which have under all circumstances full voting rights.

I think that answers my friend's question.

The third paragraph of article IV reads:

No portion of any profits arising to an enterprise of one of the states shall be attributed to a permanent establishment situated in the other

state by reason of the mere purchase of goods or merchandise within that other state by the enterprise.

Hon. Mr. Davies: May I ask the junior senator from Ottawa a question? He took as an example a Canadian corporation doing business in the Netherlands. Would a company in Canada which owned a subsidiary in the Netherlands be in the same position?

Hon. Mr. Connolly (Ottawa West): Honourable senators, the same thing has happened to me today as happened on the last day of the main session last year. I have been called several times "the junior senator from Ottawa". I am not the junior senator from Ottawa. Senator Bishop, a much younger man than I, is the junior senator from Ottawa. I am the senator from Ottawa West.

Now, in answer to the honourable gentleman from Kingston (Hon. Mr. Davies), I would say that the Leader of the Government (Hon. Mr. Macdonald) has pretty well covered the situation by referring the senior senator from Ottawa (Hon. Mr. Lambert) to article VII. However, perhaps I can do it again by way of example. The honourable senator from Kingston asked, if a group of Canadians own all the shares in a business in the Netherlands, what happens when they receive their dividends?

Hon. Mr. Davies: No. If a Canadian company started a subsidiary in the Netherlands, would the position be the same as if a group of individual Canadians bought a business in the Netherlands?

Hon. Mr. Connolly (Ottawa West): Well, I think we are talking about the same thing after all.

If a Canadian company established a subsidiary in the Netherlands, that subsidiary would be subject to the normal Netherlands corporation tax which would be incurred as a result of its doing business in the Netherlands. Then, when that subsidiary company located in the Netherlands declared a dividend, it would pay it to its only shareholder, its Canadian parent; but because more than 50 per cent of the shares in the subsidiary were owned by the Canadian parent there would be no withholding tax in the Netherlands. So, the single Canadian shareholder would get the dividend without any deduction.

The situation would be somewhat different if a number of Canadians went to the Netherlands and bought a business, which would mean dividing up the shares between them, or if they bought shares in a business there and simply owned the shares here in Canada. In that case, if no one of them individually owned 50 per cent of the shares of the Netherlands company, then when the dividends were