## CAPITAL GAINS

*White Paper Proposals*

**6.43**

> 1. International provisions would have to be changed to extend Canadian tax to gains made by non-residents on disposal of real property, partnership interests and branch assets in Canada.

**6.46**

> 2. Non-residents to be taxed on gains on sale of shares of closely held Canadian corporations. To ensure compliance a system of "certificates of compliance" proposed.

**6.47**

> 3. Non-residents to be taxed on gains on shares of widely held corporations only when sale is out of a substantial interest of 25% or more.

*Recommendations*

**We recommend adoption of these proposals because without them avoidance of Canadian capital gains tax would be readily possible for Canadian residents.** Moreover, Canadian residents who did not seek avoidance would be at a disadvantage vis à vis residents of countries without a capital gains tax with respect to capital gains on Canadian assets. This disadvantage cannot of course be avoided in the case of small lots of shares of widely held Canadian corporations, any gains from which would not be taxable to non-residents under the White Paper proposals.

Undoubtedly problems of compliance by non-residents in respect of other assets will arise. However our general recommendations on capital gains, which would make Canadian rates and rules more comparable with those elsewhere than the general White Paper proposals, should reduce these difficulties.

In the case of treaty countries having comparable capital gains treatment and rates, although we should seek to renegotiate our treaties to conform with the above stated general rules, where this is not possible **the Committee recommends that Canada be prepared to accept taxation of capital gains on a residence basis except for land, and capital assets effectively connected with a permanent establishment in Canada.**

## BRANCH PROFITS TAX

*White Paper Proposal*

**6.48**

> The 15% branch tax under section 110B of the *Income Tax Act* would be increased to correspond with the change in withholding rate on dividends.