

Income Tax

Canadian holders of British securities who would be very interested in knowing the exact details of what the government of Canada has been able to negotiate in this regard.

Mr. Sharp: Mr. Speaker, the purpose of this bill, as its title indicates, is to give legislative effect to the recently signed income tax agreements with the United Kingdom and with Sweden. For convenience the bill is divided into two parts, the first dealing with the new agreement with the United Kingdom signed last December, and the second dealing with the supplementary agreement signed last January that amends the agreement signed with Sweden in 1951. In substance the bill is similar to the bills implementing income tax agreements or supplementary income tax agreements between Canada and other countries that have been approved by the house since 1942. Canada now has in force 12 comprehensive income tax agreements—with the United States of America, New Zealand, France, Sweden, Ireland, Denmark, West Germany, the Union of South Africa, the Netherlands, Australia, Finland and Japan.

Part I of the bill approves and gives the force of law to the agreement with the United Kingdom, which is set out in schedule 1. This agreement is considerably less comprehensive than the agreements to which I have just referred, although like them, its object is to avoid double taxation, or to reduce taxation, of the income received by individuals and corporations of one of the countries from sources in the other country. It is an interim agreement limited to four classes of income on which action could be taken pending consideration of the forthcoming report of the Royal Commission on Taxation and appraisal of the consequences for tax agreements of the recent major changes in the British tax system. Since the agreement is of an interim nature it may be terminated by either government giving six months notice, but both governments have expressed the hope that it will be replaced by, or expanded into, a comprehensive agreement as soon as this is feasible.

Hon. members will recall that the former income tax agreement between Canada and the United Kingdom signed in 1946 was terminated in accordance with its terms when Canada gave notice of termination in June 1964. This was after negotiations, held over a three year period with a view to amending

the agreement in accordance with Canadian policy, had proved unsuccessful. The main point of difference leading to the termination of the old agreement was the fact that it prevented Canada from imposing any tax on dividends paid by a wholly owned subsidiary in Canada to its parent company in Britain.

The new agreement establishes a general rule, similar to that in other Canadian tax agreements, that all pensions and annuities will be taxable only in the country where the recipient of the pension or annuity is a resident. This differs from the old agreement in which the rule was that pensions paid in respect of British or Canadian governmental or military services could be taxed only in the country of source.

There are exceptions to the new general rule that preserve the position that persons in receipt of such governmental pensions had under the old agreement, if they prefer to retain that position. The provisions of the agreement concerning the tax treatment of recipients of pensions will benefit some 15,000 Canadian residents receiving pensions from United Kingdom sources and some 2,500 recipients of Canadian pensions living in Britain whose financial position has been affected by the termination of the old agreement.

The other classes of income with which the agreement deals are profits of an enterprise earned by a permanent establishment, for example a branch office, profits from the operation of ships or aircraft, and copyright royalties.

The agreement contains the usual rule, adopted by all the members of the Organization for Economic Co-operation and Development, that the industrial or commercial profits of an enterprise of one of the countries shall be taxed in the other country only if the enterprise has a permanent establishment in that other country and only to the extent that they are attributable to that permanent establishment. This exempts a taxpayer of one country from taxation in the other country, if he merely buys goods there. It also protects a taxpayer who only sells goods in the other country through an independent agent or an agent who merely takes orders and does not conclude contracts.

The agreement provides that the profits of an enterprise from the operation of ships or aircraft in international traffic shall be taxable only where the enterprise is resident. This provision is similar to that in most other agreements.

[Mr. Lambert.]