

Income Tax Act

leads me to believe that this bill should receive serious consideration.

All these things may well cause serious distortions in our economy. We saw evidence of this in the government rushing through \$80 million worth of aid to Canadian exporters who might be hurt by the surcharge. These measures may conceivably cause complete disruption of trade for Canadian exporters. Time will tell—but there is probably little Canada can do in the immediate future to influence the international situation.

As far as the long-term situation is concerned, the most serious of the United States moves could be the DISC proposals—the Domestic International Sales Corporation. This proposal, which is at the moment going through the United States legislative process, would encourage United States manufacturers to produce goods at home rather than import them from branch plants abroad such as in Canada. If Canada is not in a position to implement offsetting measures immediately, there could be an immediate diversion of production from Canadian to American plants. In the long run there could be a more devastating effect on the Canadian economy, that of new factory and plant expansion which is today in the planning stage in both countries reverting to the United States.

• (5:40 p.m.)

James McAvery, President of the Canadian Export Association, in Montebello yesterday, according to the *Globe and Mail* report of today, also warned of the dangers of the DISC proposals and said the Canadian government had given little consideration to the matter. He said the Canadian Export Association had suggested that the government plan offsetting measures now and postpone certain tax changes. He called for the federal government to reassess the tax changes in light of changes in the world trading economy and Canada's position in it. He had this to say:

Even now, the position is that Ottawa will take steps if and when the DISC is adopted but meanwhile the tax reform must stand.

In light of the drastic changes in the trade and economic situation in the world around us, it seems incredible that the government is stubbornly pressing legislation which was designed to fit circumstances prevailing a year or two ago, and is so clearly not appropriate to the situation existing today.

In a speech before the Toronto Board of Trade, Mr. William MacDonald, Toronto tax lawyer, is reported to have made similar criticisms. In his speech to the Toronto Board of Trade, Mr. MacDonald said Canada is moving in the opposite direction from the United States when it comes to creating new international trading markets. The new tax proposals would make Canadian companies liable to rates of taxation on foreign profits that are the same as those on domestic profits, while in the United States the DISC proposals would reduce domestic taxes to the levels of income taxes in the countries where United States goods are forced to compete. It would appear that as a result of tax reforms it will be prohibitive for Canadians to compete. At least two companies have so far moved their operations out of the country, he said.

He went on to lay the blame at the feet of the federal government, suggested that the federal government was not particularly interested in the private sector and compared the federal government to the French General Staff in the First World War. The General Staff had developed a plan for an offensive before the beginning of the war and was unwilling to abandon it even in the face of

greatly altered circumstances. The government seems intent on adopting similar attitudes toward tax changes: they must go through at all costs.

In this legislation there are provisions that are restrictive to multinational corporations and come at a time when Canada could possibly benefit from a growing isolationist sentiment in the United States. We must remember that multinational corporations are with us—they are here, for good or for bad.

Mr. MacDonald concluded his remarks by suggesting that the complex tax changes be delayed until the end of 1972 to permit ample time for assessment, training and a smoother transitional period. In the international field, he rejected the approach outlined in the tax reform bill with regard to restricting any changes to stop the diversion of income from Canada which is not related to business activities abroad. He went on to speak about a very important aspect of the economy that we must consider very seriously and said:

The fact that Canada is an open economy, not by choice but by necessity, means we must, above all, travel light so that we can adapt to the changing winds of fortune coming from the outside and over which we have little control.

The trouble with recent policies is that they threaten to weigh us down into immobility.

There are in the new tax bill major changes which affect non-residents. First, the tax bill proposes that non-residents should be subjected to a tax computed on capital gains realized on the sale of certain Canadian properties. I do not think that provision was included previously. Second, there would be a change in the treatment of discounts earned by non-residents on debentures, notes and the like. Third, after 1975 the normal rate of Canadian withholding tax on investment and passive income to non-residents would be increased to 25 per cent if the non-resident lives in the country with which Canada does not have a tax treaty. Also, provisions exempting certain interest payments from withholding would be withdrawn.

Fourth, certain pension payments would be subject to a withholding tax. Fifth, the special branch tax levied on non-resident corporations—the tax that in principle is in place of the normal withholding tax on dividends paid by resident corporations to non-residents—would be extended to corporations that are resident in Canada but do not meet the qualification of a “Canadian corporation”. Sixth, after 1975 this tax would be increased to 25 per cent and the same increase in rate would be levied from non-resident insurance companies.

In assessing the proposed changes affecting non-residents, it will be seen that the major changes under these provisions are the increased withholding tax rates, the taxation of specific capital gains relating to Canadian property and the taxation of several types of Canadian source income which were previous exempt. Even though many of these changes do not take effect until 1976, many of the proposals may be considered detrimental to the residents of other countries as, for instance, the proposed capital gains tax.

This would indicate that the renegotiation of existing tax treaties will not be easy since in the early 1970s we will be occupied with the great monetary problems the world is facing before the economic situation settles down. After