

Hon. Mr. Lambert: That is the way it is now?

Hon. Mr. Macdonald: That is the way it is now in Canada. Under this agreement that same provision will apply to dividends paid by companies in the Netherlands to Canadian residents.

There is also a provision in favour of students from one country taking training in the other country. So long as they are training in a university or school in the other country they are not subject to tax in that country in respect of payments they receive from their own home country. A professor or teacher who comes from the Netherlands to Canada for a limited period of not more than two years for the purpose of teaching in a Canadian university or school is not subject to taxation in Canada on income which he receives from teaching in Canada during that time.

Hon. Mr. Davies: Is there any limit on the amount of money which a Canadian can receive in the Netherlands without having to pay tax on it?

Hon. Mr. Macdonald: Under this agreement, there is no limit to the amount he can receive in the Netherlands, but the Netherlands can withhold only 15 per cent of that income.

Honourable senators, there are the other usual provisions, including one whereby a resident of Canada who receives an annuity or a pension from a source in the Netherlands is not subject to a tax on that annuity or pension in the Netherlands. There is a reciprocal arrangement so far as Canada is concerned.

Honourable senators will realize that this is relieving legislation. It relieves Canadians from double taxation on income derived from the Netherlands, and likewise it relieves people in the Netherlands from double taxation on income derived from Canada.

Hon. Mr. Lambert: Does this convention have any corporate application? I mean, is there any reciprocal arrangement between the two countries relating to taxation of corporation income?

Hon. Mr. Macdonald: Yes, it has an effect on corporations with respect to their principal place of business. For instance, if their principal establishment is in Canada and they are just incidentally doing business in the Netherlands, then the taxation would be only on the business that arises in the Netherlands.

Hon. Mr. Lambert: I was thinking of the possibility of Dutch business establishments in this country being free from taxation, on

the one hand, and, on the other hand, Canadian companies established in Holland receiving a similar concession from that country. It would seem likely that at present the number of foreign companies maintaining a branch or agency in Canada is much larger than the number of Canadian companies with an establishment abroad. The interesting point to me is where the check-off comes. Is this to be a sort of a deal popularly known as "one horse, one rabbit" or is it really reciprocal?

Hon. Mr. Macdonald: It is reciprocal.

Honourable senators, I think that explains the bill. If honourable senators are interested in any specific matters which I have not mentioned, I shall be glad to answer questions. I feel that I should be in a position to do so, because, as already stated, eight similar agreements have been dealt with in this house since 1943.

Hon. John J. Connolly: Honourable senators, may I say a word or two on the point raised by the senior senator from Ottawa (Hon. Mr. Lambert) in connection with company taxes?

Article III of the convention, which is a schedule to the bill, gives a good idea of the way in which corporation tax is to be applied to an asset in the two states, Canada and the Netherlands. This article refers particularly to immovable property, or real estate. It says, in effect, that the income received from real estate is normally taxable in the country in which the real estate is located. When a company has an established operation in one of these countries, the normal thing would be for the company to pay tax on the income attributable to that establishment in that country. In other words, if a Canadian company has an establishment here and is doing business here it will be paying its tax on its Canadian income. If it has, let us say, a subsidiary in the Netherlands, then the income attributable to the work of that subsidiary in the Netherlands would be taxed in the Netherlands, that being the place where it is located.

Perhaps where the convention really helps is this: in the event that the Canadian subsidiary located in the Netherlands has dividends which normally it will pay to its shareholders—and in this case the shareholder would be the Canadian company located in Canada—if all the shares of that subsidiary, or more than 50 per cent of its shares, are owned by the Canadian company, then the dividends may be paid out to the Canadian shareholder, which is the Canadian company, and no withholding tax shall be withheld.