

Double Taxation

DEVELOPMENTS DURING 1959

A NUMBER of developments took place during 1959 in the extension of Canada's network of conventions for the avoidance of double taxation and the prevention of fiscal evasion.

A convention with Finland, negotiated late in 1958, was signed in March and should go into force upon ratification within the next few months. The taxes covered by this agreement are the Canadian Federal Income Tax, including surtaxes and the Old-Age Security Tax on personal and corporate income, and the Finnish National Income Tax on individuals and corporations. The major principle followed to avoid the imposition of double taxation is the extension of reciprocal tax credits. As a general rule, the country of residence grants credit to individuals and corporations in respect of the taxes paid to the country where the income originates. For certain defined categories, however, the principle of exclusive taxation by the country of residence is applied. These include income of shipping and aircraft companies, pensions conferred in recognition of past services, purchased annuities, royalties from certain artistic activities and business profits and other income not derived from a permanent establishment. Remuneration (other than pensions) paid by one of the governments to individuals residing in the other country is taxed by the country of origin. This flexibility between the two principles of taxation, by the country of origin and by the country of residence, characterizes most of Canada's double taxation conventions and greatly facilitates the equitable solution of such administrative problems as arise. Other standard features of this agreement are a maximum withholding tax rate of 15 per cent on certain transfers of income and the provision for the exchange of administrative information between the two governments upon request.

On September 24 an exchange of notes took place bringing into force a convention with Switzerland for the avoidance of double taxation on air and shipping profits. The principle of exclusive taxation by the country of residence is again applied as most appropriate to this type of business operation. The taxes involved are the Canadian Federal Income Tax, including surtaxes and the Old-Age Security Tax, and the Swiss Federal and Cantonal Income or Profit Taxes. This agreement is retroactive to January 1, 1957.

Another development was the revision of the Canada-Netherlands Tax Convention, which resulted in a supplementary convention signed on October 28. The problem of concern to Canada in re-negotiating this Convention of 1957 was the rate of its withholding tax on dividends going from a company resident in Canada to a company resident in the Netherlands. Under the original convention Canada had agreed not to levy any tax if the Netherlands company owned at