

reasonably expect the same principle to apply to capital gains. (We note that the White Paper speaks of giving up Canadian residence, so that the provision will not apply to such things as vacation trips abroad). It is true that the provision could be regarded as a potential tax on honesty—as several taxpayers have suggested to us—but the same could be said for other tax provisions.

The Committee feels that the provision has to be considered along with the proposals to tax non-residents on capital gains on the sale of Canadian assets except for sales of shares out of an interest of less than 25% in widely held corporations. So, for Canadians leaving the country, the only assets for which the revenue requires protection would be foreign assets owned by the Canadians and shares out of an interest of less than 25% in widely held Canadian corporations.

The main problem, which was pointed out in many briefs, involves short-term emigrants and immigrants. It is feared that the proposal would deter young Canadians from going abroad for relatively short periods of time to gain knowledge and experience, and conversely would deter people from other countries from coming to Canada and giving this country the benefit of their knowledge and experience. The apprehension seems to be a valid one.

**We therefore recommend that for persons entering Canada the rule should be suspended with respect to foreign assets if the stay is for no longer than a specified period—say three years. For persons leaving Canada, we recommend an option to take the deemed realization or to continue to be treated as a Canadian resident for capital gains purposes. If the second choice is made, there would obviously have to be provisions enabling the Canadian government to collect the tax. We suggest that the person leaving the country be required to deposit with a Canadian trustee sufficient Canadian assets or guarantees to cover the tax on gains already accrued but unrealized on foreign assets and shares of widely held corporations. Liability for tax on other assets would continue under the general rule proposed for application to non-residents. Our recommendation would involve deferral of tax, but would not act as a deterrent to temporary absences.**

A desirable additional approach would be for reciprocal treaty arrangements to be reached—as in other areas, to avoid double taxation—under which the country of residence at the time of realization would tax from the deemed cost base of market value at the time of taking up residence in that country. Given such arrangements, a deemed realization on leaving Canada would lose much of its sting.

This raises another aspect of the problem, that where non-residents holding Canadian assets move to Canada the proposal would appear to give them a new cost base for all assets, including Canadian assets. It seems anomalous that simply by taking up Canadian residence shortly before selling the assets,