● (1410)

[*Translation*]

## FINANCE

### MEASURE TO AVOID DOUBLE INCOME TAXATION BETWEEN CANADA AND CERTAIN OTHER COUNTRIES

**Hon. Judd Buchanan (for the Minister of Finance)** moved: That Bill S-32 (from the Senate) to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel, be read the second time and referred to the Standing Committee on Finance, Trade and Economic Affairs.

**Mr. Jacques-L. Trudel (Parliamentary Secretary to Minister of Finance):** Mr. Speaker, the purpose of this bill is to implement conventions for the avoidance of double taxation with respect to income tax between Canada and France, Canada and Belgium and Canada and Israel. Moreover, in order that these conventions remain up to date after any amendment to the tax legislation in the countries involved, the bill provides that the Governor in Council may, subject to a resolution of Parliament, decree that any supplementary agreement has the force of law.

After the 1971 tax reform, Canada did undertake a major extension of its program of fiscal agreements with other countries. To this day, we have signed 16 such agreements and we intend to revise them all. As a matter of fact, once the agreement between Canada and France will have been ratified, it will replace the agreement signed in 1951 by the two countries and which is now in effect. Mr. Speaker, we hope that new agreements such as the one signed by Canada and Belgium and the one signed by Canada and Israel will be entered into in the same way between Canada and some forty other countries.

The extension of the network of fiscal agreements signed by Canada and other countries had been implicitly suggested in the 1971 tax reform for various reasons. For instance, before the tax reform, the dividends drawn by a Canadian corporation from a foreign branch were automatically exempted from corporate income tax in Canada; under the Income Tax Act, as amended in 1971, the universal exemption granted with respect to the dividends drawn from a foreign branch is restricted. Since January 1, 1976, only the active income dividends of a foreign subsidiary established in a country with whom Canada has agreed on the overall content of a tax convention are exempted. Tax reform has also brought about, for instance, changes in the taxation of capital gains and has provided that from now on foreign teachers will no longer have their Canadian-earned income exempted.

The three conventions on double taxation being studied have much in common. They take after the format and language used in the draft model convention prepared by the committee on taxation of the Organization for Economic Cooperation and Development, better known as the OECD. Canada usually accepts the wording of the provisions recommended in the draft convention. In some cases however, the content of the OECD proposals does not reflect Canadian policies and, therefore, cannot be adhered to in our bi-lateral conventions. The most important of these provisions are related to taxation by the source country of dividends, interests and royalties paid to non-residents.

It should be noted, Mr. Speaker, that when they are negotiating fiscal arrangements, industrialized nations are inclined to ask for specific rates for tax deducted at the source, according to the pattern followed in OECD countries that is 5 per cent on dividends paid to parent or affiliated companies and 15 per cent on other dividends, no deduction for branch profits, 10 per cent on interests and no deduction on royalties. On the other hand, developing countries usually try to maintain higher rates for taxes deducted at the source because the greater part of the income flow moves from the developing country where the investments are made, towards the industrialized county where the investors are based.

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In the course of its negotiations with the other countries, Canada has tried to get a general rate of 15 per cent on the dividends, interests and profits of branches and a rate of 10 per cent on royalties. However, we are prepared to accept higher rates, in the course of our negotiations with developing countries, only if those rates are consistent with those the country in question has granted in its tax conventions with other industrialized countries.

The conventions with France, Belgium and Israel provide that all dividends can be taxed in the country of which the company paying the dividends is a resident so that the charge shall not exceed 15 per cent.

A general rate of 15 per cent is also considered when interests coming from one particular country are paid to a resident of the other. A limited number of exceptions has been provided for certain categories of interests in order to promote better relations between Canada and these countries in the financial, economic and trading fields.

As for royalties, the conventions with France and Belgium provide a flat rate of 10 per cent and that with Israel, a rate of 15 per cent. The three conventions contain an exemption for royalties on copyrights for artistic works, but not including royalties in respect of motion picture films and works on film or videotape for use in connection with television. It must be noted that the Income Tax Act provides such an exemption for copyright royalties. The convention with France provides in addition an exemption on royalties in respect of cultural motion picture films such as defined in the convention.

There are some other points covered by the income tax conventions on which I would like to comment, especially about capital gains. The provisions on capital gains in the three conventions reflect the Canadian position authorizing the country at the source to tax gains from the alienation of immovable property, the assets of a company and the shares of an immovable company. For the purposes of the conventions, an immovable company is one whose assets consist mainly of immovable property.

I would like to bring in a few details concerning teachers. According to most tax conventions in force in Canada, foreign teachers benefit from a fiscal exemption during two years. These provisions have certainly raised a lot of dissatisfaction and the white paper on fiscal reform stated precisely that this concession would be removed from new