This particular agreement was originally signed in 1980. The protocol being ratified under S–9 will be the third formal modification enacted over a 15–year period.

A substantial amount of the protocol deals with technical issues of definition and clarification of existing rules regarding taxes on income and capital. But there are also a number of important changes which should deliver real benefits to Canada and Canadians, or that enhance the fairness of the two tax systems as they apply to non–residents.

One of these important elements is that the protocol reduces or eliminates the rate of witholding tax that each country will apply to interest payments, direct dividends and certain royalties.

Canada and the U.S. already enjoy the most extensive trade relationship of any two industrial nations in the world.

• (1300)

And our exports to the U.S. are a critical component of Canada's 1994 economic growth, which was the best in the G–7.

[*English*]

By reducing tax withholding rates this protocol should ease and encourage the continuing growth of trade and investment between our two nations. I should mention that it brings these rates into line with those provided in the OECD model tax convention, rates accepted by a majority of the 25–member countries of that organization.

Let me outline the specifics of these changes. Under the protocol the general rate of holding tax on direct dividends will be reduced to 5 per cent by 1997 from the current 10 per cent. In consequence, the protocol also drops the rate of the branch tax to 5 per cent again by 1997.

Regarding the withholding tax on interest payments, the protocol will see the rate reduced to 10 per cent from the 15 per cent rate that applied under the previous 1984 protocol. As well, the new agreement ensures that interest paid between a buyer and an unrelated seller will continue to be exempt from the withholding tax in the source country, even if the indebtedness has been transferred to a third person.

Finally, this agreement will eliminate completely the withholding tax on royalties on computer software and on patent and technological information. Let me remind the House that bilateral relief will have very beneficial effects: first, by reducing the cost to Canadian companies of accessing technology and know–how from the U.S.; and, second, by enhancing the ability of Canadian high tech firms to sell their products and services in the U.S.

Let me move to another area where Bill S–9 will have a beneficial impact. It will restore fairness regarding the impact of U.S. estate taxes on Canadians holding property there. I should acknowledge right off that there have been some concerns raised about this aspect of Bill S–9. Let me be blunt. Anyone who thinks that this is an unwarranted tax gift to the wealthy is mistaken and clearly does not understand the legislation and the changes in U.S. law it addresses.

Under current U.S. law enacted in 1988, Canadians who die holding U.S. property valued at over $60,000 U.S. may be subject to U.S. estate taxes. This is a much lower threshold than American citizens face. Once the protocol is ratified by our two nations, however, Canadian residents will be entitled to treatment that is not less favourable than that available to our American neighbours. In other words, this means Canadians will generally not be subjected to estate taxes unless the value of the individual's worldwide gross estate exceeds $600,000. In addition, a special marital credit will be available with respect to property transferred to the spouse of the deceased.

There is a further change, again to enhance fairness in the way our two tax systems operate, involving U.S. estate taxes and their Canadian equivalent. Under the protocol our government has agreed to provide a credit against Canadian taxes on U.S. source income to the estate of a Canadian citizen in those cases where U.S. estate taxes are also levied. The United States will grant a reciprocal credit for Canadian income taxes levied on a deceased American.

Incidentally, it is also important to note that this provision is effective retroactively for death occurring after November 10, 1988 when the major changes to the U.S. estate taxes affecting Canadian residents were introduced.

Let me reiterate that these changes do not represent a gift of any sort to any Canadian. Given the fiscal challenges facing our government, we have no interest in helping the affluent escape paying their fair share of taxes. But fairness equally demands that no Canadian, whatever their means, should be cavalierly subject to the bane of double taxation. This is what this tax treaty protocol works to do, eliminate double taxation.

• (1305)

The changes agreed to by our nations recognize that while both Canada and the United States impose taxes regarding death, these take two separate forms. The U.S. applies an estate tax, but in Canada the levy takes the form of an income tax on any appreciation of a deceased's property over his or her lifetime. These different forms of death tax have created a problem.

Canada, like most countries, has rules to prevent double taxation. However, these rules do not cover a situation like this where the taxes are imposed in different forms. As a result, unless the dilemma is corrected cases could arise where the estate of a Canadian with U.S. property would face combined