GOVERNMENT ORDERS

[*Translation*]

INTERNATIONAL INCOME TAX CONVENTIONS ACT

MEASURE RESPECTING DOUBLE TAXATION

Hon. Pierre Bussières (Minister of State, Finance) moved that Bill S-2, to implement conventions between Canada and Spain, Canada and the Republic of Liberia, Canada and the Republic of Austria, Canada and Italy, Canada and the Republic of Korea, Canada and the Socialist Republic of Romaniá and Canada and the Republic of Indonesia and agreements between Canada and Malaysia, Canada and Jamaica and Canada and Barbados and a convention between Canada and the United Kingdom of Great Britain and Northern Ireland for the avoidance of double taxation with respect to income tax be read a second time and referred to the Standing Committee on Finance, Trade and Economic Affairs.

He said: Mr. Speaker, you indicated the title of Bill S-2, proposing that legislation to confirm agreements between Canada and certain countries be read a second time. The aim, as has also been indicated, is to avoid double taxation with respect to income tax of subjects of countries that are parties to the conventions.

The bill also aims at ensuring that future amendments to the conventions or agreements can be implemented by orders in council, subject to a resolution of Parliament. This procedure, which is defined in part II of the bill, is in accordance with the procedure established by Parliament for the nine conventions already approved since the tax reform.

The 11 conventions are similar as to form as well as substance, and they are similar to those which have been agreed to in the past. Two of the conventions, those with Jamaica and the United Kingdom, will replace conventions signed before the tax reform. When all these conventions have been ratified, the number of Canadian tax conventions in effect will increase from 24 to 33.

I would now like, Mr. Speaker, to review briefly the major elements of these tax conventions. Generally speaking, dividends may be source taxed at a maximum rate of 15 per cent; exceptions are Malaysia, which does not tax dividends paid to non-residents, and Jamaica, which maintains its right to tax at a rate of 22.5 per cent, as stipulated in the 1971 agreement, when the dividends are paid to a Canadian firm which controls the Jamaican enterprise.

A general rate of 15 per cent—20 per cent in some cases with Liberia—is provided for in the case of interest paid to a non-resident. Certain types of interest, such as the interest paid to the Export Development Corporation, are exempted in the source country.

With respect to royalties, the treaties provide for a general rate of 10 per cent, except that those with Korea, Malaysia, Indonesia and Romania provide for a rate of 15 per cent.

Other matters are dealt with in these treaties. For instance, there are capital gains, non-discrimination, the case of teachers, the problem of pensions, and double taxation relief. With your permission, Mr. Speaker, I would like to say a few words on each of these matters.

Capital gains. The provisions dealing with capital gains in each one of the conventions follow the Canadian policy to ensure that the country where the gains were made keeps its taxation right in the case of sales of real estate, business assets or shares in real estate business.

Non-discrimination. Each convention prevents discrimination based on nationality. This will ensure that a country's nationals will be treated the same way as those from other countries under similar circumstances. However, this will not prevent a country from granting tax incentives—for example, small business deductions—on the sole basis of the taxpayer's residence.

The case of teachers. None of the conventions provides for special treatment in the case of foreign teachers in Canada. The two-year exemption provided for in the 1966 convention with Great Britain will therefore be removed.

Pensions. Canada has preserved its right to tax pensions paid to residents of the countries concerned in the bill. In the case of two countries, Italy and Great Britain, this taxation right at source will be exercised only when the amount of pensions exceeds $10,000 a year. However, those provisions do not affect the taxation right of the recipient's country of residence.

Relief from double taxation. In Canada, the method used for relief from double taxation is to grant a credit on Canadian taxes for taxes paid abroad, subject of course to the limitations set out in the domestic legislation. Furthermore, dividends received by a Canadian business from its foreign affiliate are tax exempt in Canada if they come from the exempt surplus of the affiliate.

The conventions with Malaysia, Spain, Liberia, Korea, Jamaica, Romania, Indonesia and Barbados also contain a special provision commonly called a fictitious tax credit. Under such a provision, tax incentives provided by the domestic law of those countries are recognized for Canadian tax purposes, which means that investors will be able to deduct from their Canadian taxes foreign taxes that have not been collected.

As a whole, the terms of each of those conventions provide fair solutions to the different problems of double taxation between Canada and those countries. Each of the countries concerned is awaiting impatiently the implementation of the bilateral tax convention, and consequently I am very happy to see that hon. members are agreed to give this bill rapid and diligent passage.