

We dislike ministerial discretion as a matter of principle, and would note that if it were provided, informal rules would undoubtedly grow up to define the circumstances in which it would be exercised.

In our view, rules which are subject to Parliamentary scrutiny are clearly preferable to informal rules and ministerial discretion; therefore, with some reluctance we acknowledge the need to develop Sub Part F type rules.

### *Recommendations*

**Subject to the foregoing comments the Committee approves the government's objectives for taxing foreign source income of Canadians and in particular its objectives with regard to: dividends from "controlled" foreign corporations; passive income of controlled foreign corporations; other foreign investment income; business profits and wages earned abroad; and the "flow-through" of foreign withholding taxes.**

## FOREIGN BUSINESS CORPORATION

### *White Paper Proposal*

#### **6.31-6.33**

Exemption from tax for foreign business corporations\*, removed in 1959 except for those then in existence, to be entirely removed. This would be done immediately for passive income, while for business profits there would be a foreign tax credit system over a five-year period.

### *Recommendation*

**The Committee approves this proposal but recommends that the five-year transitional period apply to passive income of foreign business corporations as well. See also N.R.O. comments below.**

## CANADIAN TREATMENT OF NON-RESIDENTS

### *White Paper Proposal*

#### **6.36-6.38**

### *Withholding Tax*

Rate to be increased to 25%, except under existing tax treaties; the increase would not apply to dividends before January 1, 1974, but would apply to other income as of January 1, 1971, with certain mitigations.

(It was stated in Chapter 1 of the White Paper that pensions paid from Canada to persons living outside would be subject to a withholding tax of 25%, but with provision for lower or higher rates if the circumstances of the recipient warrant them.)

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\* A foreign business corporation (defined at length in section 71(2) of the *Income Tax Act*), is, briefly, a corporation resident in Canada which carries on business during the year entirely outside Canada. It files a return and pays an annual fee of \$100.00.