

than 95 per cent of the voting shares of its Canadian subsidiary are owned by it, then it immediately loses the benefit of the 5 per cent Canadian withholding tax, and the withholding tax jumps up to 15 per cent.

This amendment is designed to cure that situation. It reduces from 95 per cent to 51 per cent the percentage which the American parent company must own in the voting shares of a Canadian subsidiary in order to permit it to benefit from the 5 per cent Canadian tax deduction. And it goes even further than that: it provides that this Canadian subsidiary may be owned by not more than four parent companies in the United States, each of which, however, must own at least 10 per cent of the voting stock of the Canadian subsidiary.

Honourable senators will see how this amendment will affect the situation that I have described. In the future it will be possible for American companies having Canadian subsidiaries to offer Canadian investors shares of voting stock in those Canadian subsidiaries up to the extent of 49 per cent of the total of those shares without involving themselves in losing the difference between the 5 per cent Canadian withholding tax on the dividends which they receive from those shares and 15 per cent.

There is one further provision which may be of some importance. It is to be found on page 4 of the convention, article XIII D. The language of that provision is extremely involved, but I have tried to write out for my own benefit what it actually means in practice, and this is the result. It has to deal with charitable contributions made by residents of one country to charities in the other country. Let me take an example. As a resident of Canada, say that \$1,000 of my income is derived from sources in the United States. At the present time I can make a charitable donation of \$100—10 per cent of that \$1,000—to a Canadian charity in respect of that income and can reduce my Canadian tax accordingly. Now under this proposed amendment I can make that charitable donation of \$100 in respect of my \$1,000 of United States income to a charitable organization in the United States and obtain the same reduction in my Canadian income tax, provided that the United States charitable organization to which I make the donation is one which, had it been a Canadian charitable organization, would have been recognized for the purpose under our tax law. The provision is reciprocal the other way in favour of a citizen of the United States who derives part of its income from Canada, and out of his Canadian income makes a contribution to a Canadian charity.

Hon. Mr. McDonald: Does it have to be an international organization like the Red Cross, for instance?

Hon. Mr. Hugessen: No; any organization which, had it been a Canadian charitable organization, would have been recognized as such by our income tax law.

Hon. Mr. Connolly (Ottawa West): Is there a further explanation to be given on this article?

Hon. Mr. Hugessen: I am afraid I cannot go any further.

Hon. Mr. Connolly (Ottawa West): I did not know whether there was another branch to it. There is a further question I would like to ask. In the amount of charitable donations they can make, Canadian corporations are restricted to 5 per cent of their taxable income. I think, but I am not sure, that the same restriction applies to American corporations for charitable purposes as well. Do I take it that, under this provision, if an American corporation is making a charitable gift to a recognized charitable organization in Canada, it still must stay within this 5 per cent limitation?

Hon. Mr. Hugessen: Oh, yes.

Hon. Mr. Connolly: And likewise, when a Canadian company makes a gift to an American charitable organization the ceiling of 5 per cent is not lifted?

Hon. Mr. Hugessen: No, the ceiling is not lifted but the limitation under the ceiling within which charitable contributions can be made by that corporation is extended to the extent that the corporation has income in the other country. Let me try to give my honourable friend an example. Suppose an American corporation has, say, \$2 million of income, \$1 million of which it receives from sources in Canada. Its 5 per cent limit on its charitable donations as a whole remains, but in future it will be able to give half of its donations within that limit to Canadian charities instead of having to confine the donations, as at present, to United States charitable organizations.

Hon. Mr. Connolly (Ottawa West): I take it that an American corporation doing no business in Canada is not assisted by this provision in making a charitable donation in Canada. It must have Canadian income before it can take advantage of this provision?

Hon. Mr. Hugessen: Yes.

Hon. Mr. Connolly (Ottawa West): Thank you.

Hon. Mr. Hugessen: There is only one other provision of this amending convention which