

Adjournment Debate

Does the Minister of Finance think it is fair to allow Canadian subsidiaries to reduce their taxable income simply by operating in a tax haven? Will the Minister of Finance follow the advice of his officials and review the list of designated countries to eliminate tax revenues?

[*Translation*]

In order to make the necessary changes, the Minister of Finance should first complete the studies begun in 1987 on this issue. It is becoming more and more obvious that the Conservative government is dragging its feet when it comes to eliminating tax loopholes, but it is certainly quick to tax Canadians. The Conservatives can increase personal income tax. They have done so fairly steadily in the last eight years, hitting Canadians with some 32 tax increases. Consequently, will the Minister of Finance complete the studies on tax avoidance schemes which began in 1987 and are still not completed some six years later?

[*English*]

While working on these studies, would he suggest interim budget amendments to the Income Tax Act? Even Revenue Canada wrote to the Department of Finance that it should "consider interim budget amendments to the foreign affiliate rules to address the more obviously abusive tax practices".

Will the Minister of Finance or his representative tell the House tonight that he is going to move on this issue that costs Canadians hundreds of millions of dollars. Those are not my words, but the words of the Auditor General of Canada.

Mr. Bill Kempling (Parliamentary Secretary to President of the Treasury Board and Minister of State (Finance)): Mr. Speaker, the Auditor General has suggested that hundreds of millions of dollars in potential income tax revenue are being lost annually under the current system of foreign affiliate taxation.

As well, he has put forward a number of examples in support of his conclusions. It is important to recognize that these examples all predate the 1989 taxation year.

As such they occurred prior to the introduction of the general anti-avoidance rule or GAAR.

GAAR was introduced by this government specifically in order to combat transactions that are entered into solely for tax avoidance reasons and more specifically, transactions that while technically consistent with the specific rules of the Income Tax Act, are abusive in tax policy terms. While GAAR is still relatively new, it is a powerful tool. It is anticipated that Revenue Canada will apply it on a regular basis in those cases which involve abusive tax transactions.

While several examples cited by the Auditor General are presently under review by Revenue Canada, it is not clear that in the remaining examples Canada is actually losing tax revenues as a result of the transactions in question.

This government has an enviable record of closing tax loopholes and ensuring that corporations, which under previous governments paid little or no tax, are made to pay their fair share. In particular, since 1984, we have among other things eliminated scientific research tax credits, stopped loss trading by corporations, terminated par votes in the resource sector and restricted after-tax financing.

Ultimately, the foreign affiliate tax regime accurately reflects the intentions of Parliament and provides for full taxation of all income that is intended to be taxed in Canada. The hon. member must remember that in the field of international taxation, more than one country will inevitably have jurisdiction to tax a particular source of income.

Therefore, in order to avoid double taxation, income must be allocated equitably among different countries. This is done largely through bilateral tax treaties. Where appropriate, it involves Canada waiving its rights to tax certain incomes in favour of another country in order to foster international competitiveness of Canadian business. This does not represent avoidance, but rather, a recognition that in certain circumstances—

The Acting Speaker (Mr. DeBlois): Order please. Your time has now expired.