

Income Tax Act

the American investments which were being indirectly discouraged by special taxes for non-residents?

[Text]

The Chairman: The minister may want to reply to this question, but it seems to me it goes beyond the scope of clause 19 which, as was pointed out a moment ago, deals exclusively with the rescinding of a specific tax which actually was never applied.

[Translation]

Mr. Grégoire: Mr. Chairman, with regard to that clause or the other one, there is a very close relationship between the two, since they both deal with special taxes applied to non-residents, and I am of the opinion that the answer can be given with regard to one clause or the other, in view of the fact that I informed the minister that it was related to clauses 19 and 20 both. Therefore, the answer can be more elaborate.

But, in any case, I am ready to wait until the next clause to get an answer from the minister, although I think it is not in order.

The Chairman: I think it would be better to wait until we are dealing with clause 20 before the minister answers.

[Text]

Clause agreed to.

On clause 20.

Mr. Gordon: I shall be glad to answer my hon. friend on that. In the first place I should explain that if a withholding tax is levied on dividends payable by a Canadian company to a United States parent company, a large proportion of the withholding tax, or at least a substantial proportion, is allowed as a deduction from the taxes payable by the United States parent to the United States treasury.

While the amounts vary considerably, depending on the total amount of profit earned by the United States parent, and the total amount earned by the Canadian company, and whether the United States parent has other overseas subsidiaries in other countries, and with the amount of taxes payable by them. It is a fair generalization, however, to say that a withholding tax at the rate of 15 per cent has about the same net effect, when the top United States corporation income tax is about 48 per cent, as would a Canadian withholding tax of 20 per cent when the top United States rate is 52 per cent.

There are some minor variations, but that is essentially it. Therefore when the United States congress—as I explained in the budget speech—reduced their rates of tax, effective

for 1964 and 1965, we concluded that the effect we had wished to achieve would be achieved with a 15 per cent Canadian tax, once the United States rate becomes 48 per cent, which will be on January 1, 1965, it would have about the same effect as would a 20 per cent tax in Canada when the United States rate was considerably higher.

[Translation]

Mr. Grégoire: Another question, Mr. Chairman, to obtain further particulars.

The Minister of Finance can perhaps try to make us believe that a 15 per cent tax is equal to a 20 per cent tax, but there is just the same a mathematical factor involved and 15 per cent is less than 20 per cent, since there is a difference of 5 per cent.

And now, Mr. Chairman, I would like to know if, while reducing by 5 per cent the tax levied on non-residents last year, the Minister of Finance is taking at the same time some measures which would enable Canadians to regain control of their economy, of their industries, of their manufactures and of their natural resources to a greater extent than at the present time?

I therefore ask the Minister of Finance whether he can tell us what are those measures taken by his department to compensate for the tax reductions appearing in his budget this year.

[Text]

Mr. Gordon: I think we may be straying a little off the subject but, as I said in the budget speech, the government intends to introduce amendments to the Insurance Companies Act, designed to encourage those great accumulators of the savings of the Canadian people to place a greater proportion of those accumulations into investments in the equities and natural resources of the country. I have been working with my officials on the form of these amendments which will be presented in due course and, while it would be improper for me to indicate in advance what the proposed changes will be, I think they will have the effect that I have indicated, over a period of years.

I might say that since beginning to work on this, the royal commission on banking and finance has brought down its report, and has supported the views of the government that the present restrictions on the kind of investments that insurance companies may make should be eased. That will be done when the amendments to the act are presented to the house.

[Translation]

Mr. Grégoire: Mr. Chairman, I have another question for the Minister of Finance. Does he intend to consider the advisability of having