

Income Tax Act

So I suggest there is quite a lot of evidence available to indicate that this section could be repealed.

Clause agreed to.

Clauses 11 to 14 inclusive agreed to.

On clause 15—*Special tax rate*.

Mr. Lambert: This is related to the withholding tax, and with all due respect to the minister I have some difficulty in reconciling his replies with some of the questions I put to him the other day. He indicated yesterday that the question of abrogation of article XI of the tax convention between Canada and the United States depends upon the imposition of a tax. The question which I raised the other day was to the effect, had he had the assurance of the officers of the treasury, and had he had the assurance of the authorities in the United States government that they would not deem this to be a *de facto* abrogation as of now, and not wait until the imposition of the tax after January 1, 1965, as envisaged by the minister?

This is the point that is of primary concern. I think the minister will recognize that there are a number of business interests in this country, and it has been suggested to me from my reading that although it may appear strange, the investment per capita by Canadians in business in the United States may be at about the same level as the per capita investment by United States interests in Canadian industry. If this were to be a *de facto* abrogation within article XI of the taxation convention, then immediately the United States government could boost its rate of withholding tax to 30 per cent, that is a 30 per cent withholding tax on dividends payable to Canadian parent companies by United States subsidiaries, wherein the majority of the income earned by the Canadian parent is from the United States subsidiary.

Of course, we all realize just how quick the reaction to this provision would be the establishment of so-called Delaware corporations. This would mean that what has been a two-way street would become entirely a one-way street, and any investments Canadians might have in the United States would become a mere fragment of what they are now. It must be recognized that there are a number of Canadian corporations, and we hope there will be more, that are extending their operations into what is potentially a good market for Canadian expansion.

I should like to have this assurance from the minister. It is not sufficient to say that when the tax is imposed we will know the reaction. We would like to know if we have

an assurance from the United States authorities that the passage into law of this bill will not be deemed to be the imposition of a tax. With all due respect to the minister, the fact that the tax would become operative as of January 1, 1965, may be interpreted, under the terms of this legislation, as the imposition of a tax on dividends as of January 1, 1965.

Mr. Gordon: I think perhaps the hon. member is talking on clause 23 of the bill and not clause 15, but perhaps I might answer the point he has raised now while it is clear in our minds. I do not want to be asked to mention individuals in the reply I am about to make.

Mr. Lambert: I have no thought of individuals.

Mr. Gordon: We have had some preliminary conversations and discussions with the appropriate officials in Washington on this point. One of the more senior officials suggested to me, within recent weeks, that before we got down to a discussion of this problem it would be best to wait until the bill was passed. He said, after all, this particular thing does not come into effect until 1965, so we have lots of time to discuss it.

Mr. Olson: This clause appears to me to be another example of what might be called piecemeal legislation. If I understand it, all it does is raise from 15 per cent to 20 per cent the tax on most non-resident owned investment corporations. I should like to ask the minister if he has given any consideration to introducing some legislation to provide a different plan for attracting foreign capital on a permanent basis? In other words, will he induce foreign capital to come to Canada and become Canadian capital?

Mr. Gordon: All I can say is that this amendment provides that there be no withholding tax at all on certain investments in Canadian bonds, which is the way in which most of the capital comes to Canada. These non-resident owned investment corporations are a special kind of company which is defined in section 70 of the act. They are used by non-residents to hold portfolios of investments in Canada. The rates of tax on these companies must be increased in conformity with the non-residents withholding tax; otherwise the non-resident companies could use this special type of company to hold their shares in subsidiaries in Canada and thus arrange to have their dividends from these subsidiaries taxed at the 15 per cent rate. It is needed, if we are going to have the change in the withholding tax that is recommended in the later section. This particular