The major reform of Canada's income tax legislation in 1971 required Canada to expand its network of double taxation conventions — tax treaties, if you like — with other countries. Since that time, negotiations for the conclusion of new treaties or the revision of existing ones have been entered into with 75 countries, according to my notes.

In this bill, the four tax conventions under review follow the general pattern of the conventions previously approved by Parliament, and I am advised that the number of Canadian tax treaties in force presently is 52.

Honourable senators, I should like now to briefly indicate the main elements of these tax treaties, the ones which I mentioned at the beginning of my comments and which are specifically identified in the bill. I will deal with the protocol of the Netherlands convention at the end of my comments.

These treaties provide generally that dividends may be taxed in the source country at a maximum rate of 15 per cent. However, in the case of dividends paid to a company that is a resident of a contracting state, a 10-per-cent rate, or 12.5 per cent in the case of Nigeria, will apply if the company receiving the dividends holds a certain equity interest in the company paying the dividends.

In the case of interest paid by a resident of one country to a resident of the other country, a general rate of 12.5 per cent will apply. There are, of course, always exceptions: 15 per cent in the case of Zimbabwe and 10 per cent in the case of Hungary. There are a number of other exceptions and I will not go into the details.

Interest paid in respect of a bond or a similar obligation of the government, a political subdivision or local authority thereof is exempt in the country in which it arises. Also, except in the case of Zimbabwe, these treaties contain a provision that would allow that interest paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by certain state entities — for example, in Canada, the Export Development Corporation — be taxable only in the state in which the recipient of such interest resides.

• (1510)

With respect to royalties, the conventions provide for a general rate of 10 per cent in the source country — 12.5 per cent in the case of Nigeria, and from 3 to 15 per cent in the case of Argentina, depending on the nature of the royalty. Copyright royalties are exempt under treaty with Hungary.

Some of the other matters also dealt with in these tax treaties include:

> Capital gains: The treaty provisions dealing with capital gains reflect the standard Canadian position enabling the source country to tax gains arising on the sale of real property, business assets and shares in real estate companies.
>
> Non-discrimination: Under the conventions, discrimination on the basis of nationality is prohibited, thereby ensuring the nationals of one country equal treatment with nationals of the other country in the same circumstances. However, this does not prevent a country from providing fiscal incentives — for example, the small business deduction — on the basis of the residence of the taxpayer.
>
> Pensions: Canada has preserved its right to tax pensions paid to residents of Argentina, Zimbabwe, Nigeria and Hungary. In the case of Argentina, Zimbabwe and Hungary, the maximum rate of tax applicable by a contracting state to periodic pension and annuity payments to residents of the other state is 15 per cent. In the case of Nigeria, there is no stated maximum rate of tax applicable to periodic pension payments. Finally, war veterans' pensions are generally exempt from tax under the four treaties.
>
> Double taxation relief: The treaties provide that, in Canada, double taxation of foreign source income of Canadian residents is alleviated by way of a foreign tax credit, in accordance with the limitations provided for in the Canadian legislation. In addition, dividends received by a company resident in Canada from the exempt surplus of its foreign affiliate resident in a treaty country are exempt from tax in Canada. Reciprocally, relief from double taxation is granted in the other treaty country in accordance with the method recognized by that country.

As I said a moment ago, I want to deal separately with the amendment to the protocol with the Kingdom of the Netherlands. The protocol to the tax convention signed by Canada and the Netherlands updated the 1986 treaty to take into consideration the changes made to the respective laws and policies of the two countries. The Netherlands is the first country with which the offer extended by the Minister of Finance in his budget of 1992 to reduce the withholding rates on direct dividends will be implemented. The rate of withholding on dividends where the recipient holds 25 per cent of the capital of the paying corporation are reduced over a period of five years to 5 per cent, which is a change from the current 10 per cent. The protocol also introduces a reduction of the rate of withholding tax to 10 per cent from the existing 15 per cent and eliminates the withholding tax on interest paid to pension funds and on royalties of computer software. The latter issue was referred to in the April, 1993, budget.

In conclusion, honourable senators, on balance the terms of the four tax conventions and the protocol provide some equitable solutions to the various problems of double taxation existing between Canada and these countries. Each of these countries hopes to implement the bilateral convention as soon as possible, and consequently I would therefore commend this bill to the most favourable consideration by this house.

**Hon. Noël A. Kinsella:** Honourable senators, we wish to thank Senator Olson for his analysis of Bill S-2. I should like to make a few comments at this time and, if there is no further discussion from honourable senators, perhaps we could agree to have the bill referred today to the agreed-upon committee.