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INTERNATIONAL TAX PROBLEMS

Statement by Miss Kathleen Bowlby in the Second
Committee of the United Nations General Assembly,
New York on February 7, 1957.

Firstly, I would like, on behalf of the Canadian
Delegation, to join other members of this committee in
expressing to the Secretary-General our thanks and compliments
on having produced as objective and workmanlike a document
as that entitled "International Tax Problems--Taxation and
Capital-Exporting and Capital-Importing Countries of Foreign
Private Investments" (Document E. 2865 of May 23, 1956).

As you all know, Canada both imports and exports
capital but, on balance, it is a capital-importing country.
As Document E.2865 points out, major capital exporting coun-
tries have in fact greatly reduced their tax claim on income
derived from foreign investments, thus going a long way towards
meeting the wishes of the less developed capital importing
countries. Canadian tax legislation is as liberal in this regard
as the legislation of any other developed country. In fact,
I may even say that, as far as Canada is concerned, we have
probably gone beyond the recommendations envisaged by the committee
on international fiscal problems.

In view of our past experience in Canada, the Canadian
Delegation would suggest that countries wishing to attract
private foreign capital will find it desirable to design their
tax systems so as to provide adequate incentives and safeguards
to foreign investors.

For record purposes, I would like to review some of
the principal features of the Canadian tax system, which are
relevant to this debate. These are, of course, mentioned
in Document E.2865. As selective tax incentives, the following
concessions have been made: Canada exempts from taxation all
intercorporate dividends, including dividends transferred from
foreign subsidiaries to parent Canadian companies. Thus there
is no tax deterrent in Canada to the making of direct foreign
investments by means of the establishment of foreign subsidiaries.
(This method accounts for a large proportion of foreign investment
of all countries). This concession is granted irrespective of
whether or not the profits of the foreign subsidiary are taxed
in the country where it operates, and removes all discrimination
between the tax treatment of dividends of foreign subsidiaries
and domestic subsidiaries. It does not offer any special
incentive to foreign investment as opposed to domestic investment.

The profits of a corporation resident in Canada
which carries on all of its operations abroad are exempt
from Canadian corporate income tax. By this concession, not
only Canadian but also foreign funds can be channelled tax
free through such corporations into foreign countries. This
concession, unlike the above, can be considered as offering
a special tax incentive to foreign investment.

Both of the above concessions apply only to corporations, not to individuals.

Another set of obstacles to foreign investment in many countries, by individuals as well as by companies, has been removed by the conclusion by Canada of bilateral double taxation agreements. These agreements vary according to circumstances but among other things provide that the Canadian tax claim on income earned in a foreign country is reduced by the amount of the tax imposed by the foreign country. Canada has signed double taxation agreements with eight countries and is in the process of negotiation of double taxation agreements with four more countries. A wider application of double taxation agreements between capital-exporting and capital-importing countries would remove many of the existing deterrents to foreign investment. Even in the absence of a double taxation agreement, however, Canada reduces its tax claims on income earned abroad to the extent that this income has already been taxed in the country of origin.

In view also of the existing legislation in Canada, my delegation would like to take advantage of this forum to indicate that Canada favours a wider application of double taxation agreements among member countries and that where agreements do not already exist, Canada is willing to conclude double taxation agreements, which could be adapted to meet the particular problems of the countries concerned.

In referring to the resolution before us my delegation is also pleased to see that in the second preambular paragraph thought was given to inserting the word "Maintain" in the phrase "appropriate measures should be taken to establish (and maintain) a climate favourable", etc.

To conclude, I would like to say that the Canadian Delegation supports the French resolution. This resolution would assist to maintain the climate of co-operation which already exists in the United Nations for the promotion of the economic development of the less developed countries. In addition, the resolution is consistent with previously adopted resolutions to the effect that further country studies should be made and reports presented to the Secretary-General. The Canadian Delegation looks forward to constructive results from the efforts already made.

