

# Portfolio Investments

The simplest way to invest in Canada or in the Canadian dollar is to make portfolio investments in securities that are publicly traded on Canadian stock exchanges. By "portfolio investments", we mean situations where the investor owns less than a 10% interest.

The investor's return is either in the form of interest or dividends paid on the shares, or as a capital gain when the investment is sold.

## **Canadian and German Tax Treatment**

Interest or dividends paid by Canadian corporations to German residents (whether individuals or corporations) are subject to 15% withholding tax, reduced from 25% under the Canada-Germany Tax Treaty.

For both individual and corporate recipients, the amount will be included in income for German tax purposes, grossed-up for the 15% tax withheld (50% income inclusion, effective 2001). However, a tax credit against German tax is given for the tax withheld, resulting in the German resident paying essentially full German tax on the income. If no credit is available (for example, if no German taxes are otherwise payable due to losses), an application can be filed for the tax to be deducted as an expense.

## **Withholding Tax Exemptions on Interest**

There are several exemptions from withholding tax for certain interest and investments, two of which are of particular interest to portfolio investors.

First, interest on most federal and provincial government debt and debts of Crown corporations are exempt of withholding tax. These investments offer the security of the governments that issue them and generally bear favourable market rates. Accordingly, a German investor who can otherwise shelter the income from German tax will receive a return completely free of tax.

Secondly, interest on long-term debt where no more than 25% of the principal is required to be repaid within 5 years of issue is also exempt of withholding tax, provided the investor is arm's length with the issuer. This exemption applies irrespective of whether the security is publicly traded, and so can be used to eliminate withholding tax on private placements.

Consult your investment advisor on the withholding tax status of any particular security.

## **Capital Gains**

Capital gains on the sale of portfolio investments in Canadian securities will generally be free of Canadian tax. However, as noted previously, you may be subject to German tax on 50% of these gains, depending on the length of time the investments have been held or if the percentage of ownership exceeds 1%, effective 2001.

## **Reporting Requirements**

In order to apply the lower treaty withholding tax rate, the payor must be in possession of a signed statement from the holder of the security certifying that he is a resident of the treaty country. If a third party nominee is used, the nominee must certify that the beneficial owner is resident in a treaty country.

All corporations paying interest or dividends are required by law to annually prepare information returns showing the amount paid to and address of each recipient. These returns are filed with the federal government, with individual information slips going to the recipients or their nominees.