



If it is not one thing, it is another...

It's fair to say that recent trade headlines have been of the "less bad" variety. US-China trade tensions came off the boil with a 90-day delay in implementing the more stringent tariffs that were announced back in April. In addition, a recent ruling by the US Court of International Trade could fully strike down the broad "retaliatory" tariffs that are slated to return in mid-July. However, when it comes to this US Administration, if it isn't one thing, it is another.

In this case, that other thing is a potentially significant shock to foreign investors in US assets and a further hit to the US's standing on the global stage - all in the name of collecting revenue for the government.

Specifically, deep within the White House's proposed "One Big, Beautiful Bill¹" is Section 899 entitled "Enforcement of Remedies Against Unfair Taxes". As per this piece of legislation, the US government aims to, among other things, raise taxes on passive income such as interest and dividends earned by investors from countries deemed to have "discriminatory" tax policies. This would include holders of US assets from countries that levy "digital service taxes" on technology companies (which includes Canada) as well as countries that have adopted minimum corporate taxes, both of which are viewed as unfairly targeting large US-based multinational corporations.

Perhaps most notably, the proposed five percentage point per year increase in tax rates would also override existing tax treaties and remove long-standing exemptions for registered accounts (including Canadian Registered Retirement Savings Plans) and government-related institutional investors such as sovereign wealth and pension funds (including the Canadian Pension Plan). It would clearly be punitive in a non-taxable environment.

Clearly, such a policy has the potential to create a significant (and increasing) tax bill for Canadian taxable investors with US exposure where adjustments are not made to increase the credit for foreign taxes paid. Where the US increases their withholding tax, this will likely lead to a smaller amount of taxes collected by Canada but not necessarily an increase in tax at the investor level.

At the same time, however, should the policy become law, it would likely exacerbate the "Sell America" narrative that has prevailed over the last four months and raise the cost of capital within the US as foreign investors shun American stocks and bonds. This could lead to a lower US dollar, softer equities and higher yields on US assets, while potentially offering support for non-US markets as investors seek alternative options.

¹Congress.gov, Legislation, 119th Congress, H.R.1 – One Big Beautiful Bill Act, June 2, 2025, <https://www.congress.gov/bill/119th-congress/house-bill/1/text>



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Of course, as has been the case with every policy announcement since Inauguration Day, this is far from being a certainty. The Bill only narrowly passed in the House of Representatives and now faces scrutiny in the Senate – not to mention strong pushback from both the financial sector and foreign investors. There is no guarantee this Bill makes it through the end process as it currently stands or at all.

Regardless, the introduction of the policy represents more economic animosity against former close allies, fraying formerly solid relationships and adding to the uncertainty that has been greatly clouding the outlook for financial markets and the global economy alike. Should this latest move end up as yet another attempt to create negotiating leverage without any staying power, it will likely not be long before another policy threat originates from Washington, that roils markets and takes up space in these pages.

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