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Doing Business in Canada

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Preface

This publication provides information regarding the general business environment of Canada. It was designed specifically to help you understand Canada and pursue Canadian opportunities.

Doing Business in Canada outlines finance, taxation, audit, and accounting practices and, at the same time, gives an overview of business regulations and the potential for investment.

Detailed advice should be sought from a qualified professional with a BKR International member firm when considering, and before making, a move into the Canadian market. This booklet is intended to cover some of the important, broad questions relevant to such a move, but is by no means comprehensive.

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1. General Information

1.1 History

After many years of conflict between British and French interests, the upper half of the North American continent became the Dominion of Canada on July 1, 1867. Canada remains an active member of the British Commonwealth and still maintains its close ties with France.

1.2 Geography and Basic Resources

Canada occupies the northern half of the North American continent, along with Alaska and Greenland, as the largest country in the Western Hemisphere. Canada shares the five Great Lakes with the United States. The Great Lakes are connected to the Atlantic Ocean and are accessible to most ocean-going vessels, affording direct shipping to all world markets. Canada is rich in natural resources, such as fresh water, oil, timber, and hydro-power.

1.3 Government and Legal Systems

Canada has a constitutional British monarchy and is governed as a British parliamentary democracy, with both an elected, multi-party House of Commons and an appointed Senate. Since 1982, Canada is fully responsible for its own constitution and any future changes to it.

The country is divided into 10 provinces and three territories. The federal and provincial governments are responsible to their elected parliament or legislature. Canada's federal capital is located in Ottawa.

The Prime Minister is the effective head of the federal administration and is normally the leader of the majority political party in the House of Commons. The Federal Cabinet is appointed by the Prime Minister from among the members of his party, who hold seats in Parliament. The Premier is the effective head of each provincial administration and is normally the leader of the majority political party in the provincial legislature.

Municipal governments in all provinces are established and regulated by provincial law. They are normally governed by elected councils and mayors.

Canada’s legal system is composed of both federal and provincial courts, both of which have courts of appeal over them, with the Supreme Court of Canada being the court of last resort. Canadian law consists of statutes and judicial decisions. The large body of case law is mainly from English common law, except for the province of Quebec, which has laws based on the French Civil Code.

1.4 Population

By January 2014, the population of Canada increased to approximately 35.3 million people (Source: Statistics Canada). Most of the population is concentrated within 200 miles of Canada's southern border with the United States, primarily in the provinces of Ontario, Quebec, Alberta,

and British Columbia.

1.5 National Languages

Both English and French form the two official languages of Canada. All federal and some provincial (e.g., the provinces of Quebec and Ontario) government services and publications are provided in both official languages.

1.6 Communications and Transportation

Canada’s modern system of telecommunications includes wire, digital and cellular telephone, facsimile, cable, internet access, radio, and satellite services. Canada’s transportation system is serviced by rail, water, road, air, and pipelines**,** and is fully integrated across the country.

2. Finance

2.1 Currency

The Canadian dollar is the country's currency. Presently, there are no currency or exchange restrictions in existence.

The foreign exchange value of the Canadian dollar is allowed to float vis-à-vis other currencies at the discretion of the central bank, the Bank of Canada.

2.2 Banking and Finance

The Bank of Canada is responsible for the country's monetary policy and acts as fiscal agent for the federal government. Banks, trust, mortgage, and insurance companies are regulated by the federal Office of the Superintendent of Financial Institutions (OSFI).

Institutional financing is available in Canada from several sources (e.g., chartered banks, trust, insurance, sales finance, and lease finance companies).

The Canadian banking system is composed of two classes of banks, chartered under the Bank Act of Canada. Schedule I banks are publicly owned**,** and no one shareholder may own more than 10% of the voting stock. Private investors may form a Schedule II bank subject to certain ownership requirements.

Foreign-owned banks and closely held, Canadian-owned banks are chartered as Schedule II operations. The retail banking system is characterized by nationwide branches that offer a wide range of personal and commercial banking services of Schedule I domestic banks, although consideration is being given to a proposal to allow branch banking by Schedule II foreign banks. Many international banks have chartered Schedule II banking subsidiaries in Canada, as well as registered representative offices.

2.3 Financial Markets

Canada has several stock and commodity exchanges, located in the cities of Toronto, Montreal, Winnipeg, Vancouver, and Calgary.

The Toronto Stock Exchange is the third largest in North America. The Toronto Futures Exchange has been operating since 1984**,** handling Canada's financial futures market. Agricultural commodity futures are traded on ICE Futures Canada.

Foreign investors are encouraged to participate in Canada's public securities markets, but large percentage ownership may be restricted by federal authority under the Investment Canada Act. Canada's well-developed money markets maintain close links with other international finance markets to ensure that multinational corporations carrying on business in Canada have their financial needs met.

3. Business Entities

3.1 Forms of Business Entities in Canada

The principal forms of business entities in Canada are corporate (e.g., either joint-stock, co-operative, or non-profit forms of incorporation), partnership, trust, and sole proprietorship. In addition, foreign entities may operate in Canada through a subsidiary Canadian corporation, branch, or divisional permanent establishment.

3.2 Public and Private Corporations

The formation of a joint-stock corporation in Canada is a relatively simple and inexpensive matter. Public corporations and private corporations may be incorporated, with unlimited classes and authorized amounts of share capital, under either the federal Canada Business Corporations Act or under similar provincial statutes. Canadian law does not provide for the formation of limited liability companies. The Provinces of British Columbia, Nova Scotia, and Alberta have a form of Hybrid Corporation that is an "unlimited liability corporation." Other special forms of corporation (e.g., banks, insurance, and trust companies) are incorporated under special statutes in both federal and provincial jurisdictions.

A federally incorporated company may carry on business in all provinces and territories across Canada. A federal corporation is subject to provincial laws relating to taxation, real estate, and certain other fees and licenses. Provincial corporations are limited to activities within their particular provincial jurisdiction of incorporation. However, provincial corporations may obtain extra-provincial licenses to operate within another provincial jurisdiction.

Any foreign corporation choosing to carry on business as a branch in Canada should be licensed or registered in each province in which it will operate. The filing of Canadian corporate tax and other returns for the corporate branch are required under both federal and provincial statutes.

3.3 Partnerships

There are three forms of partnership used for business purposes in Canada: unlimited liability general partnership, limited partnership, and limited liability partnership. Partnerships are formed by private agreement or registered under provincial statutes.

3.4 Sole Proprietorships

Substantial numbers of small businesses in Canada are unincorporated and owner-managed by individuals. The owners of sole proprietorships are not limited in their liability to creditors of the business. All benefits and liabilities from a proprietorship accrue to the proprietor, and all income earned by the proprietorship is taxable to the proprietor.

3.5 Labour Relations and Social Security

Canada's labour force encompasses approximately 19.2 million Canadians (Source: Statistics Canada, February 2014). Union members make up approximately 25% of the paid labour force workers.

Employer-employee relations are governed by federal and provincial labour legislation.

Examples of current labour law legislation include minimum annual vacation entitlements, discrimination prohibition, maternity and parental leave, health and safety laws, termination notice, unemployment insurance, and child care assistance for families with dependant children under the age of 18.

All provincial governments have legislated minimum hourly wage rates ranging from $9.95 to $11.00 per hour, which are adjusted periodically. The usual work week for hourly paid industrial workers is 40 hours, while office and clerical staff generally work a 37.5 hour week, excluding Saturdays and Sundays.

All employees are covered statutorily under the federal Canada Pension Plan and Employment Insurance Plan, and under the provincial Workers' Compensation programs. Canadian residents are covered under provincial health and medical care programs.

4. Auditing and Accounting

4.1 Accounting Profession

The three major public accounting designations recognized in Canada are the chartered accountant (CA), the certified management accountant (CMA), and the certified general accountant (CGA). The Canadian provinces are working on a unification process of the accounting profession. The provinces of Quebec, New-Brunswick and Saskatchewan have officially unified the CA, CGA and CMA under the new title of Chartered Professional Accountants of Canada (CPA). The unification process is still in progress for the other provinces. Each of these associations is regulated by its own national and provincial bodies. Accountants that serve as public auditors are regulated or licensed under the statute of the province(s) in which they operate.

4.2 Audit Requirements and Standards

The Canada Business Corporations Act (CBCA) specifies that annual audited financial statements are required for all public corporations. Audited financial statements may be required based on relevant corporate and/or securities legislation.

4.3 Accounting and Auditing Standards and Principles

The Chartered Professional Accountants of Canada through its Accounting Standards Board and its Auditing and Assurance Standards Board, sets out standards and procedures (CPA Canada Handbooks) that govern generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS), and practices in Canada. GAAP and GAAS are required by most federal and provincial corporation statutes and various provincial securities regulations.

Since January 1st, 2011, all Canadian publicly accountable profit oriented enterprises are obliged to use of International Financial Report Standard (IFRS). However these standards are optional for other enterprises.

5. Taxation

5.1 Introduction to the Canadian Tax System

The Canadian Income Tax Act (Act) is administered by the Canada Revenue Agency (CRA).

The CRA is responsible for tax administration procedures and for assessment of income tax returns and appeals thereto. The respective corporate and personal income tax laws of the 10 provinces and three territories closely parallel the federal Act. Although in some areas, there are specific differences between them.

The basis of taxation in Canada is residence. Corporations and individuals, including trusts and estates, residing in Canada are taxable on their taxable worldwide income from all sources (i.e., business, property, employment, and 50% of net capital gains and losses).

Foreign corporations and individuals (i.e., non-residents of Canada) are taxable on income earned in Canada from the following sources:

- Business carried on in Canada;
- Employment in Canada;
- Capital gains on "taxable Canadian property;" and
- Canadian-sourced passive income (i.e., dividends, interest, rents, royalties, etc.).

Canada has entered into a number of international tax treaties with other countries, which provide special tax exemptions, tax rates, and relief from double taxation for their residents. Many of Canada's tax treaties preclude the taxation of capital gains of non-residents by Canada, except for gains derived from direct or indirect holdings of real estate situated in Canada.

Special rules in the Act set out the income tax consequences of a corporate or individual taxpayer that becomes, or ceases to be, a resident taxpayer of Canada. These rules provide for a deemed change of taxation year-end (for corporations), and deemed acquisitions (on immigration) or dispositions (on emigration) of capital and non-capital properties at their fair market value (except certain specified Canadian properties) at the time of immigration to/or emigration from Canada.

5.2 Domestic and Foreign Corporations

The Act provides that a domestic corporation incorporated in Canada is subject to income tax as a deemed resident of Canada. Also, a foreign corporation may be fully taxable as a resident in Canada if, under common-law tests, its "central management and control" is considered to be in Canada, unless otherwise determined under a relevant tax treaty with Canada.

A non-resident foreign corporation, incorporated outside Canada, is subject to Canadian income taxes on only its taxable income earned in Canada from carrying on business through a Canadian branch operation. However, Canada's international tax treaties usually exempt non-resident corporations from Canadian tax on Canadian-source business income, provided no "permanent establishment" is maintained in Canada.

For Canadian income tax purposes, foreign corporations principally engaged in international shipping, and the international transportation of passengers or goods, are specifically treated as non-residents in Canada.

Under the change-of-residence rules, where a corporation's country of incorporation is changed, or “continued” in Canada or abroad, the corporation is treated as incorporated and, therefore, resides in the country of continuance. Corporations in a cross-border merger are treated as having the same residency status as the merged corporation.

A corporation that discontinues its incorporation or resident status in Canada is subject to a special exit tax of 25% on its net assets, or such lower withholding tax rate as may be specified for intercompany dividends under a relevant international tax treaty with Canada. This exit tax is calculated on the excess of the fair market value of the emigrating corporation's assets in Canada over its liabilities and paid-up capital stock. This tax is in addition to any other tax resulting from deemed dispositions of properties within a corporation upon emigration.

The starting point for calculating a corporation's Canadian taxable income is its financial statement profit for a taxation period or year, as calculated under GAAP. Specific statutory adjustments are made to financial statement net income to compute Canadian taxable income.

5.3 Corporate Income Tax Rates and Credits

Canadian corporate income tax rates can vary from roughly a low of 11% to a high of 50.7% (depending on the nature of the corporation's income and the provinces in which the corporate income is earned), as follows:

Corporations – 2014
*Combined Federal and Provincial Income Tax Rates**

Domestic and Foreign, Public, and Private Corporations:	
Manufacturing and processing income	17.50% - 26.90%
Basic business income	25.00% - 30.00%
Investment income (excluding inter-corporate dividends)	25.00% - 30.00%
Capital gains	12.50% - 15.00%
Canadian-Controlled Private Corporations:	
Active business income (under $500,000) **	11.00% - 19.00%
Manufacturing and processing profits	17.50% - 26.90%
Investment income (excluding inter-corporate dividends)	44.7% - 50.7%***
Capital gains	22.4% - 25.4%
Taxable Capital:	
Financial institutions	0% - 5%

** Rates can change as a consequence of either federal or provincial tax amendments announced subsequent to publication of this booklet.*
*** The small business threshold in Nova Scotia and Manitoba is $400,000. Effective January 1, 2014 the threshold will increase to $425,000 for Manitoba and decrease to $350,0000 for Nova Scotia..*
**** Partially refundable when dividends are paid to shareholder individuals*

5.4 Tax-Free Rollover Transfers and Corporate Reorganizations

For Canadian tax purposes, assets may be transferred or "rolled over," on a tax-deferred basis, at the tax "adjusted cost base" to a corporation, and between corporations, in exchange for consideration, which must include capital stock of the transferee corporation. These special rollover provisions facilitate corporate reorganizations by deferring tax on profits and accrued capital gains at the time of the transfer and until ultimately realized in future dispositions. Complex tax elections must be filed and various accounting and legal considerations arise when implementing such transactions.

5.5 Non-Resident Withholding Taxes

Generally, where a Canadian resident pays or credits to a non-resident certain types of passive income (e.g., interest, dividends, rents, royalties, certain management fees, etc.), the resident payer is required to withhold and remit a Canadian non-resident withholding tax at a statutory rate of 25% (often reduced by international tax treaties). Responsibility for withholding such tax remains with the resident payer, who is liable to pay the non-resident taxes even if not withheld from the amount paid or credited to the non-resident. In addition, if a non-resident entity (usually a corporation or individual) provides services in Canada, the payer is required to withhold a 15% tax (not reduced by international tax treaty) and it is incumbent upon the non-resident entity to file a Canadian tax return to potentially recover all or a portion of the withheld tax.

5.6 Branch Tax of Foreign Corporations

Canada imposes a special additional tax on non-resident corporations carrying on business in Canada through a branch or "permanent establishment." The "branch tax" is designed to parallel the non-resident withholding tax that applies to corporate dividends paid to non-resident shareholders. Branch tax is calculated at a statutory rate of 25% (often reduced or exempted by international tax treaties) on a branch's net after-tax profits, reduced by a re-investment allowance for certain qualifying property in Canada.

5.7 Partnerships

Partnerships are not separately taxable, but the individual and/or corporate partners must include in income their allocated share of a partnership's profits and losses each year. If a partner is not resident in Canada, there are withholding tax issues with respect to allocations of partnership income.

The deductibility of a partner's allocated share of "limited partnership" losses is restricted to the amount of a partner's capital invested in the partnership to the extent such capital is considered to be "at risk." Furthermore, a "limited partner" is taxable as a capital gain on any negative adjusted cost base arising in a "limited partnership" interest (i.e., where the net amount of a partner's accumulated flow-through losses and capital withdrawals exceed the partner's accumulated capital contributions and flow-through profits).

5.8 Taxation of Individuals in Canada

Canada taxes individuals on the basis of their resident status for tax purposes. An individual is taxed on worldwide sources of income received during the entire year if resident in Canada throughout the year. In a year in which an individual immigrates to/or emigrates from Canada, the individual is taxed on worldwide sources of income only for the period that is after immigration or prior to emigration. While a non-resident of Canada, an individual is taxable on certain sources of income, as noted in paragraph 5.1 above.

The determination of residence in Canada is a question of facts relating to the existence of “ties” to Canada. An individual may be deemed to be a resident of Canada if the individual sojourns in Canada for more than 183 days in a calendar year. Many of Canada's international tax treaties provide so-called “tie-breaker rules” for determining an individual’s residence for purposes of establishing whether an individual is taxable in Canada as a resident or non-resident.

Canadian and foreign employers are required to make various payroll withholdings from their employees’ salaries and wages earned in Canada. The withholdings are made and remitted on a periodic basis for Canadian personal income tax and social security plans (e.g., Canada Pension Plan, Employment Insurance, and Worker’s Compensation).

Generally, lottery winnings and windfall gains are not taxable in Canada. Moreover, proceeds received as a death benefit from a life insurance policy or as disability insurance receipts are generally not taxable in Canada.

An individual’s taxable income in Canada is calculated net of certain personal deductions, including statutory deductions for contributions to registered pension plans and registered retirement savings plans, annual union, professional or like dues, child and attendant care expenses, eligible moving expenses, and periodic alimony payments.

5.9 Individual Income Tax Rates

Combined federal and provincial income tax rates for individuals are approximately as follows (depending on the nature of the individual's income and province of residence):

Individuals – 2013
Combined federal and provincial income tax rates

Taxable Income	Employment, Business, Interest, Rent	Non-Eligible Dividends (Canadian Resident Corporations)	Eligible Dividends (Canadian Resident Corporations)	Capital Gains Net of Losses
0 - $43,561	20,1%-35.8%	1% - 24.1%	Nil – 9.63%	3.85% - 19.19%
$43,562 - $87,123	32% - 45.7%	16.2% - 35.4%	6.46% - 29.35%	17.25% - 22.9%
$87,124 - $135,054	36% - 47.5%	23.96% - 39.15%	15.15% - 36.06%	18.0% - 24.98%
$135,055 and over	39% - 50%	27.7% - 39.15%	19.29% - 36.06%	21.15% - 25%

These rates can change as a consequence of either federal or provincial tax amendments announced subsequent to the publication of this booklet.

Individual taxpayers are required to compute and pay an alternative minimum tax (AMT) at

approximately 20% - 23.6% on an adjusted taxable income amount if greater than the individual's "regular" tax. Where the AMT exceeds "regular tax" in a taxation year, the individual may carry forward the excess as a tax credit to the seven subsequent years to be claimed when regular tax exceeds the AMT for that year.

5.10 Estates and Trusts

The Canadian tax system recognizes two kinds of trusts: (1) estates or testamentary trusts that arise on the death of an individual and (2) inter-vivos trusts established during one's lifetime. In general, estates and trusts are considered resident where the majority of the trustees are in fact resident and direct the estate's trust and affairs. Although, similar to corporations (as noted in paragraph 5.2 above), an estate or trust could be considered resident in Canada if the central management and control of the trust assets is situated in Canada.

A Canadian resident testamentary trust is taxed at the same progressive tax rates applicable to individuals up to 2015. An inter-vivos trust is taxed at the highest marginal tax rate for individuals. A trust is allowed a tax deduction for income paid, or allocated as payable, to a beneficiary under the trust deed or at the discretion of the trustees. Such distributions are taxed in the beneficiaries' hands for the year received or allocated. If a non-resident beneficiary of a Canadian resident trust receives, or is allocated income of the trust, non-resident withholding taxes may apply.

A Canadian resident trust is taxed on a notional disposition of its capital properties at fair market value every 21 years, which may result in taxable capital gains net of allowable capital losses and recaptured depreciation in the trust.

Canada taxes non-resident trusts that may be deemed resident in Canada if there are Canadian resident beneficiaries of the trust and there are investments in offshore portfolio investments. One of the main reasons is considered to be the avoidance of Canadian tax. Where a foreign trust is considered not resident in Canada, the Canadian resident beneficiaries may be taxed on their share of the trust's accumulating foreign investment income, known as "foreign accrual property income" (FAPI). The beneficiaries are taxed on FAPI in the year when such income is, or is deemed to be, earned by the trust (not if, or when, FAPI is actually received). Business income of a foreign non-resident trust generally is not taxed until received by a Canadian resident beneficiary.

5.11 Estate, Gift, or Wealth Taxes

Certain provinces (but not the federal government) levy a relatively small estate tax and/or estate administration fee on the value of an individual's estate on death. No gift or wealth tax is levied in Canada by either the federal or provincial governments. However, on death, capital properties owned by the deceased are subject to tax on accrued but unrealized taxable capital gains net of allowable capital losses determined from the notional disposition of the properties at fair market value at the time of death. Consequently, heirs receive a deceased's property free of any additional succession or wealth tax. The fair market value used to determine the capital gain or loss at the time of death becomes the adjusted cost basis of the assets for the heirs of the estate.

A deceased's properties are exempted from the deemed capital gains tax on death where the properties pass directly to a surviving spouse or a trust for the benefit of the surviving spouse. As a consequence, the capital gains tax on death is deferred until the death of the surviving spouse.

5.12 Commodity Taxes

Canada imposes several levels of commodity taxes on the sale of goods and services in Canada. Federally, a 5% value-added tax, known as the "goods and services tax" (GST), is imposed on purchases of nearly all goods and services supplied in, and imported into, Canada. Most provinces impose an additional 5%-9.975% retail sales tax on the end-user or consumer of tangible goods and certain specific services (e.g., property rentals and leases). The province of Quebec imposes a provincial sales tax on goods and services that is similar to the GST. It is a separate additional tax of 9.5% of the GST included amount imposed on goods and services consumed in Quebec.

The Provinces of Ontario and the Atlantic provinces of Nova Scotia, New Brunswick, and Newfoundland have "harmonized" their retail sales tax with the federal GST. The "harmonized" tax is collected as a single, value-added tax on goods and services transactions in each of those provinces: New Brunswick, Newfoundland, and Ontario – 13%; Nova Scotia – 15%.

5.13 Tariffs and Customs Duties

Many goods imported into Canada are subject to tariffs and customs duties by the federal government. The rate of duty will depend on the tariff classification of the goods and the country of origin. The duty is payable at the time of importation by the importer or its agent (i.e., the customs broker). Significant reductions in duty rates have taken place in recent years as a result of the North American Free Trade Agreement with the United States and Mexico, and other Free Trade agreements with Panama, Jordan, Colombia, Peru, Costa Rica, Chile, Israel, and the European Free Trade Association. In addition, there are currently a number of other Free Trade Agreements pending or being negotiated.

5.14 Excise Taxes and Duties

Excise taxes and duties at various prescribed rates are paid by the manufacturer on its sale of specified luxury goods manufactured or produced in Canada, or by the importer if the goods are imported. The list of such items includes jewellery, alcoholic beverages, cigarettes, tobacco, and gasoline, etc.

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7. About BKR International

BKR International is a leading global association of independent accounting and business advisory firms representing the expertise of more than 135 member firms with over 300 offices in over 70 countries around the world.

Partners in member firms are experts in the accounting and taxation requirements of their own countries, and consider direct partner contact with clients to be the key to successful professional relationships.

BKR International is represented by member firms in each of the following countries:

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Congo
Cyprus
Czech Republic
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Malta
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Nigeria
Norway
Pakistan
Palestine
Panama
Peru
Philippines
Poland
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Puerto Rico
Romania
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Taiwan
Togo
Turkey
Ukraine
United Arab Emirates
United Kingdom
United States of America
Uruguay
Venezuela
Vietnam