Doing Business in Canada 2008

November 2008

BDO International

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Introduction

The aim of this publication, which has been prepared for the exclusive use of BDO Member Firms and their clients and prospective clients, is to provide background information for setting up and running a business in Canada, in compliance with the legislation in force on 1 August 2008. It is of use to anyone who is thinking of establishing a business in Canada as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company, and to anyone who is considering coming to work or live permanently in Canada.

The publication describes the business environment in Canada and outlines the financial and legal implications of running, or working for, a Canadian business. The most important issues are included, but it is not feasible to discuss every subject in detail within this format. Accordingly, *Doing Business in Canada* 2008 is written in general terms and is not intended to be comprehensive. If you would like to know more, please contact the BDO Member Firms with which you normally deal, who can provide you with information on any further issues and on the impact of any legislation subsequent to 1 August 2008.

BDO International is a worldwide network of accounting and consulting firms, called BDO Member Firms, serving international clients. Each BDO Member Firm is an independent legal entity in its own country. The network is coordinated by BDO Global Coordination BV, incorporated in the Netherlands, with an office in Brussels, Belgium, where the Global Coordination Office is located.

Founded in Europe in 1963, it has grown to be the fifth largest in the world – the BDO network now has 629 offices in 111 countries, with more than 31 500 partners and staff providing professional auditing, accounting, tax and consulting services on every continent.

BDO's special skills lie in applying its local knowledge, experience and understanding of the international context to provide an integrated global service. In BDO, common operating and quality control procedures are not a constraint on innovation and independence of thought, but the starting point. It is a vigorous organisation committed to total client service.

BDO's reputation derives from consistently offering imaginative and objective advice within the client's time constraints. BDO Member Firms take pride in their clients' success and their relationships with them. It is a personal relationship that combines the benefits of professional knowledge, integrity and an entrepreneurial approach, with an understanding of a client's business and an ability to communicate effectively. This ensures the highest-quality objective professional service, tailored to meet the individual needs of every client, whether they be governments, multinational companies, national or local businesses, or private individuals.

Doing Business in Canada has been written by BDO Dunwoody LLP, the Canadian Member Firm of BDO. Its contact details may be found on page 50 of this publication.

Sixth edition

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1. The business environment

General information

Geography, population and language

Canada covers 9.8 million km^2, making it the second largest country in the world. It forms the northern half of the continent of North America, together with its offshore islands. Its only land border is with the United States of America. Approximately 62% of the 32.3 million inhabitants live in Québec and Ontario, primarily in the south-western corridor of Ontario and the St. Lawrence river-basin area. The capital of Canada is Ottawa. Of the country's two official languages, English is usually the language of commerce, except in Québec, where French is generally used.

History

On 1 July 1867, the British North America Act became law and Canada was born. On the day of Confederation, Canada was made up of the four provinces of Nova Scotia, New Brunswick, Québec and Ontario. By 1949, Canada had 10 provinces and two territories. On 1 April 1999, a new territory (Nunavut) was created, making a total of three territories in Canada.

Government

Canada's federal government, located in Ottawa, is comprised of the Governor-General (the Rt Hon Michaëlle Jean, appointed by the Prime Minister) who represents Her Majesty Queen Elizabeth II; the Senate (also an appointed body) and the House of Commons (elected by mandatory vote every four years). Each province has its own elected provincial government, which covers different areas of responsibility, and in some cases, shares power with the federal government. The federal government is headed by the Prime Minister, The Hon. Stephen Harper MP, who leads a minority government of his Conservative party.

Currency

The unit of currency in Canada is the Canadian dollar (international abbreviation: CAD). In addition to the dollar coin, coins are also issued for fractions of a dollar as follows: Quarter (25 cents or 1/4 of CAD 1), Dime (10 cents or 1/10 of CAD 1), Nickel (5 cents or 1/20 of CAD 1) and Penny (1 cent or 1/100 of CAD 1). There is also a two-dollar coin. Bank notes are issued in denominations of 5, 10, 20, 50 and 100 dollars. As at 1 September 2008, the Canadian dollar was quoted at CAD 1.5608 = EUR 1 against the euro and at CAD 1.0655 = USD 1 to the US dollar.

Time, weights and measures

The metric system of measurement is used, but for surface transactions, the most commonly used unit is the imperial acre. One acre is equivalent to 4840 square yards, or 0.407 hectares.

There are five full time zones in Canada, which are each one hour apart: Atlantic, Eastern, Central, Mountain and Pacific. The Newfoundland time zone is half an hour apart, so that between St. Johns, Newfoundland, in the north-east, and Vancouver, British Columbia, in the west, there is a 4.5-hour time difference. During the summer months, daylight saving time operates in most areas and the clock is advanced by one hour.

Business entities

The forms of legal entity present in Canada are essentially the same as those in the United Kingdom and the United States. The three basic types of legal entity are sole proprietorships, corporations (companies) and partnerships. Also, groups of entities can operate together in an arrangement commonly referred to as a joint venture. Each form of business organisation has its respective advantages and disadvantages as discussed below, and specific taxation considerations are reviewed in Chapter 3.

Corporation

A corporation, which is the most frequently used form of business organisation in Canada, may be formed under federal statute (the Canada Business Corporations Act) or under any one of the 10 provincial statutes governing corporations. When deciding upon the appropriate jurisdiction for incorporation, the following factors should be considered:

- requirements for disclosure of financial information
- residence requirements for directors
- the jurisdictions in which the principal business activities of the enterprise will be conducted.

The incorporation of a company is accomplished by paying a fairly nominal fee and filing articles of incorporation with the appropriate government office together with certain other information including the proposed name, share structure, number of directors and description of business activity. There is no prescribed level of share equity required to incorporate a company.

Each corporation must have a board of directors to supervise its management in accordance with its by-laws, which are passed and can be periodically amended by the shareholders. Most incorporating statutes require that a majority of the directors of a corporation be resident Canadians.

A federal corporation is generally entitled to carry on business in any province while, for the most part, a provincially incorporated corporation must obtain an extra-provincial licence and register to do business in each province in which it will have business activities.

A foreign corporation is allowed to operate directly in Canada as a branch, but must obtain an extra-provincial licence enabling it to operate in each province where it carries out business. Without the licence, a foreign corporation cannot register an interest in land and has limited rights in provincial courts with respect to contracts. A branch of a foreign corporation is taxed on profits in respect of carrying on business in Canada and in addition to this corporate tax, a branch profits tax is levied. The branch profits tax is designed to ensure that the tax on a Canadian branch doing business in Canada is equal to the taxes levied on Canadian subsidiaries repatriating profits abroad in the form of dividends.

Foreign corporations can also carry out business in Canada without a permanent presence in Canada by soliciting business from a permanent establishment in a foreign country or by making visits to Canada. Depending on the level of business, provincial licences may still be necessary.

Sole proprietorship

A sole proprietor is an individual who carries on business on his or her own account with no distinction between the individual and his or her business. The sole proprietorship is not a separate legal entity, so this form of doing business offers little liability protection for the proprietor's personal assets.

Partnership

A partnership has been defined by case law as the relationship that exists between two or more individuals (or corporations) carrying on business in common with a view to profit. Like the sole proprietorship, a partnership is not considered a separate legal entity. Except for limited partners (see below), each partner is jointly and severally liable for the debts and liabilities of the partnership. There are no legal requirements for partnerships to hold annual meetings or have audited financial statements. This may be perceived as a significant advantage when carrying on business in Canada as such an organisation is not obliged to release financial information to the public.

A partnership may be based solely on an oral agreement although registration may be required provincially. It is recommended that a partnership agreement be used to clarify the partners' intentions with respect to various matters such as profit sharing, rights and duties of partners, accounting methods, year-end determination, partner retirement and termination procedures.

Partnerships can be organised with general partners or limited partners. Limited partners contribute capital, do not participate in the day-to-day operation of the partnership and are not liable for debts in excess of their capital contributions. One or more general partners operate and control the business activities on a daily basis, and are liable for residual partnership debts. This limited-liability characteristic is unique to limited partnerships and offers investors a useful way of participating in operating profits with limited liability should the business fail.

Joint venture

A joint venture is defined in the Canadian Institute of Chartered Accountants (CICA) Handbook as: 'an economic activity resulting from a contractual arrangement whereby two or more venturers jointly control the economic activity'. It is not a partnership, and significant tax differences exist (see Chapter 3). In many cases, it can be difficult to determine whether a combined business arrangement is a joint venture or a partnership. Joint ventures are commonly used for developing real estate in Canada where the project has a limited life and investors share the risk associated with this phase and can benefit from their combined resources.

Labour relations and working conditions

Availability of labour

About 64.5% of the Canadian population aged 15 and over participates in the labour force. The unemployment rate in Canada in April 2008 was 6.1%. The highest provincial rate was in Newfoundland at 15.9% and the lowest rate was 3.3% in Alberta.

Employee/employer relations

Employee-employer relations are governed by both federal and provincial labour legislation. The Canada Labour Code is the federal legislation covering diverse areas such as fair employment practices, labour standards, fair-wage policies and employee safety.

Minimum wage rates are legislated both federally and provincially, although the provincial rate is higher than the federal rate in all provinces. Currently, Ontario's minimum wage is CAD 8.75 (EUR 5.61; USD 8.21) per hour and the standard working week is 48 hours (before the payment of overtime is required), with an average overtime premium of one-and-a-half for hourly employees. Provincial/territorial basic minimum wage rates vary from a low of CAD 7.75 (EUR 4.97; USD 7.27) in Prince Edward Island and New Brunswick to a high of CAD 8.75 in Ontario.

Trade unions

Unions are extensive in Canada and cover most trades and public-sector occupations. Wage rates and other terms of employment are usually determined through collective bargaining procedures.

Employee benefits

Most employment arrangements, union or non-union, provide for the following:

Public Holidays

Most employees are permitted to observe between six and nine paid public holidays per year, depending on the province or territory.

Vacation

Employers are required to provide employees with two to four weeks of paid vacation depending on an individual's length of service and the province or territory of employment. Vacation requirements may also be set under union negotiations or by employment level.

Health care and life insurance

Each province operates provincial health-care plans which cover basic medical services. These programmes are funded by general tax revenue, sales taxes and payroll taxes depending on the province or territory. The employer may also offer private dental and extended medical packages, as well as life insurance. In some cases, employees are required to share the costs of these programmes.

Pension plans

Pension plans vary widely. They are more predominant in large organisations and with employees participating in an organised union.

Foreign employees

Persons living and working in Canada will generally be subject to Canadian income tax under the general income tax rules discussed in Chapter 3. In many situations, significant tax savings are available with the appropriate planning and it is strongly recommended to have one's individual circumstances reviewed by a Canadian tax advisor before Canadian residence is attained.

Work permits

An individual wishing to work in Canada for a temporary period must apply to the Canadian consulate nearest to his or her residence prior to entering Canada. The Canadian government may then issue an employment authorisation, which is generally effective for a stated period of up to one year subject to renewal (the request for renewal needs to be made before the initial authorisation period expires). A job offer is required before one can apply for an employment authorisation and, in most cases, it will be necessary to obtain an official job offer 'Confirmation' whereby Human Resources and Skills Development Canada (HRSDC) determines whether or not the employment of the foreign worker hinders employment opportunities for permanent residents of Canada. Once HRSDC approves the job offer, the employer sends a confirmation letter to the foreign individual, who will then need to apply for a work permit from Citizenship and Immigration Canada (CIC). It is generally not difficult to obtain a work permit to enable employees of related companies to enter Canada on a temporary basis to work at a senior level in the related Canadian enterprise. Special rules apply for residents of Mexico and the US under the North America Free Trade Agreement (NAFTA). Note that there are special situations where an individual may be able to work temporarily in Canada without a work permit issued by CIC.

Immigration

If an individual plans to establish permanent residence in Canada, he or she must apply at the nearest Canadian consulate for permanent-resident status. The approval of a prospective immigrant as a 'skilled worker' is based on a points system using criteria that include arranged employment, education, experience, age, knowledge of French or English and adaptability. Business immigrants are selected based on their ability to become economically established in Canada.

There are three classes of business immigrants: investors, entrepreneurs and self-employed persons. Business immigrants are selected based on their ability to become economically established in Canada. Admissibility for family members is based on sponsorship by residents of Canada.

No customs or other duties are levied on a reasonable amount of personal effects imported into Canada by individuals entering the country to become residents.

Regulation of business

Regulatory agencies

Businesses in Canada are subject to regulation under both federal and provincial legislation. In general, the federal government has authority over matters of national or international interest while the provinces have authority over matters of local interest. In addition, local authorities are delegated the power to enact by-laws governing certain aspects of business within their territory.

Price controls

There are no statutory price controls in Canada.

Anti-trust and anti-competitive practices

Anti-trust and anti-competitive practices are dealt with under the Competition Act, a federal act with application throughout Canada. Where the Competition Bureau believes someone is engaged in anti-competitive practices in respect of merger or other civil reviewable matters, it can institute formal proceedings before the Competition Tribunal. For criminal prosecutions the Competition Bureau may refer evidence of an offence to the Attorney General of Canada for consideration, who may bring the matter before the courts.

Unlawful activities would include price discrimination, bid-rigging or any practice that restricts or lessens competition in the production, transport or supply of goods or services.

Import and export controls

Canada is a member of the World Trade Organisation (WTO). The importation of most categories of goods into Canada is not restricted. New entities must register with the Canada Revenue Agency. Exports may be restricted on the basis of either the nature of the goods, generally strategic materials or technology having potential military application, or their destination.

Patents, trademarks and copyrights

Patents granted under the Canadian Patent Act provide protection for a period of 17 years where the patent was granted prior to October 1989, and 20 years where the patent was granted after September 1989. Patents are not renewable.

Trademarks may be registered under the Canadian Trademarks Act. Registration is granted for an initial period of 15 years and may be renewed for subsequent periods of 15 years.

Copyright exists without a requirement for registration in most circumstances in respect of original literary, musical, dramatic or artistic work or with respect to computer software where the author is a citizen or subject of a country that is a member of the Berne Copyright Convention. Copyright protection is provided during the lifetime of the author and generally for 50 years after his or her death.

Exchange controls

There are no exchange controls on inward or outward investment or on the remittance of profits or repatriation of funds from Canada.

Privacy legislation

The Personal Information Protection and Electronics Documents Act provides rules for how private sector organisations may collect, use or disclose personal information in the course of commercial activities. Full implementation of this Act became effective on 1 January 2004, except in provinces that have enacted legislation that is deemed to be substantially similar to the federal law.

This Act essentially gives individuals control over personal information by requiring organisations to obtain consent from individuals to collect, use or disclose information about them. Therefore, businesses in Canada must consider and implement a privacy policy as appropriate to comply with this Act.

Restrictions on foreign investment

Government attitude towards foreign investment

The Canadian government welcomes foreign investment in Canadian businesses subject to certain legislated restrictions for particular industry segments and certain policies that may restrict investment in other sensitive areas of the economy. Federal statutes specifically limit foreign investment in the areas of broadcasting and certain financial-services businesses. The Investment Canada Act described below provides an opportunity to screen non-resident investment and control acquisitions in certain policy-sensitive areas such as cultural industries, oil and gas production and uranium mining.

Investment Canada Act

The Investment Canada Act provides legislative guidelines for screening and evaluating new foreign investment in Canada. Industry Canada is the government department that monitors all new foreign investment. The department of Canadian Heritage, however, is responsible for the administration of the Act with respect to certain cultural businesses, including businesses involved in the publication, distribution or sale of books, magazines, periodicals and newspapers and those businesses involved in film and video recordings and audio and video music recordings.

The Act requires non-Canadians who establish new Canadian businesses or acquire direct or indirect control of existing Canadian businesses to notify Industry Canada (and Canadian Heritage in certain cases) of their investment, and for larger and more sensitive investments, to submit details of the investment for review and approval. The following types of investments are subject to a review:

- Direct acquisition of control of an existing Canadian business with assets in excess of CAD 5 million (EUR 3.20 million; USD 4.69 million)
- Indirect acquisition of an existing Canadian business having assets of CAD 50 million (EUR 32.04 million; USD 46.93 million) or more. Note, however, that the CAD 5 million threshold will apply if the asset value of the Canadian business being acquired exceeds 50% of the asset value of the global transaction.

It should be noted that the investment limits for reviewable transactions are higher where either the vendor or the purchaser is resident in a World Trade Organisation (WTO) member country. In such a case, the CAD 5 million threshold for direct investments is increased to CAD 295 million (EUR 189 million; USD 276.9 million) as of 2008 and the indirect investment review is waived. The threshold for residents of WTO countries is increased annually. Note that the increased limit and waiver of review requirements do not apply for WTO investors if the Canadian business is in one of the following areas: financial services, uranium production, transportation services and cultural businesses.

Where only notification is required, the investor must file a brief statement of information either before the investment is implemented or within 30 days thereafter. The prescribed notice requires only rudimentary information about the investor and the nature of the investment.

Note that any investment that is usually only notifiable, and relates to a cultural business (with the exception of certain radio communication, broadcasting, satellite programming and broadcast network services activities), including the establishment of a new Canadian business, may be reviewed where notice is sent to the investor within 21 days following the receipt of a certified complete notification.

Investment incentives

Federal, provincial and municipal governments sponsor numerous incentive programmes to encourage investment in Canada on the basis of industry and location. The nature of the incentives and qualification requirements vary. Some are restricted to domestic investors. Assistance is likely to be more readily available to enterprises engaged in manufacturing or processing activities or research and development, but government incentives tend to fluctuate based on economic considerations, so potential investors should seek advice in this area before finalising their plans. The following sources of assistance in the form of cost-sharing arrangements, forgivable loans, cash grants, tax credits or exemptions or reduced municipal taxes should be investigated:

- Business Development Bank of Canada
- Small Business Loans Act (Canada)
- provincial government incentives
- industrial and regional development programmes.

Free trade agreements

In 1989, Canada and the United States implemented a bilateral free-trade agreement called the FTA. On 1 January 1994, Mexico acceded to the agreement, creating the North America Free Trade Agreement (NAFTA). The objectives of NAFTA are to:

- eliminate barriers to trade in goods and services between the three countries
- facilitate conditions of fair competition within the free-trade area
- liberalise conditions for investment within this free-trade area
- establish effective procedures for the joint administration of the Agreement and the resolution of disputes
- lay the foundation for future bilateral and multilateral cooperation to expand and enhance the benefits of the Agreement.

Tariff elimination

The phase-out of the Canada-US Free Trade Agreement (FTA) tariffs was completed on 1 January 1998. As of that date, most tariffs on Canada-US trade in originating goods were eliminated. Some tariffs remain in place for certain products in Canada's supply-managed sectors (e.g. eggs, dairy and poultry products). In the US, tariffs remain in place for certain products such as sugar, dairy products, peanuts and cotton. On

1 January 2003, the final tariff reduction in the Canada-Mexico phase-out schedule was completed.

Rules of origin

NAFTA applies only to goods produced in Canada, the United States or Mexico, not to goods of third-country origin shipped between the countries. However, products eligible for tariff elimination may contain third-country components if it can be proven that they have undergone sufficient processing in one of the three countries to result in a change in tariff classification.

Service

Under NAFTA, national treatment is extended to providers of covered services that are specifically listed, so that they are to be afforded no less favourable treatment than domestic suppliers of those services. Covered services include land transportation, forestry, agriculture, construction, insurance, real estate, computer, telecommunications, tourism and distribution trades. Also included are general commercial services such as advertising, equipment and automobile rental and leasing, personnel and public relations, management consulting, hotel, and certain professional services including engineering, architectural, surveying, accounting and auditing.

Temporary entry for business persons

NAFTA provides procedures to facilitate the temporary entry of business persons who are citizens of one member country into the others. Four categories of business persons are defined: business visitors, traders and investors, intra-company transferees and professionals.

Business visitors are those entering Canada to work in a listed activity or occupation from the United States or Mexico. If a person qualifies as a business visitor, a work permit is not required. A trader is a citizen seeking temporary entry for employment in a supervisory or executive capacity for an employer carrying on substantial trade in goods or services principally between Canada and the United States or Mexico. Investors are citizens who enter the country to develop and direct the operations of an enterprise in which the business person or his employer has invested, or is in the process of investing, a substantial amount of money. Work permits are required for employment in Canada of persons classified as traders, investors, intra-company transferees and professionals.

Other free-trade agreements

Canada has also entered into free-trade agreements with Chile, Israel and Costa Rica. On 26 January 2008, the Honourable David Emerson, Minister of International Trade signed, on behalf of Canada, a Free Trade Agreement between Canada and the States of the European Free Trade Association (EFTA) (Iceland, Liechtenstein, Norway, and Switzerland).

2. Finance and investment

Banking and local finance

Sources of financing

There are six major Canadian chartered banks that carry out branch activities throughout Canada. In addition, there are a large number of other lending institutions or sources of financing including smaller banks, credit unions/*caisses populaires*, trust companies, 'schedule B banks' (subsidiaries of foreign banks), life insurance companies and venture capital organisations. Most of the major domestic banks have strong international operations and preliminary information concerning local financing can be obtained from the foreign office of one of those institutions, or from the parent bank of a Canadian schedule B bank located in an investor's home country.

Debt financing

Competition between institutional lenders is strong and it pays to compare the financing terms they offer. Typically, debt financing offered by banks will be either in the form of an operating loan or a revolving line of credit to finance working capital, or in the form of a term loan or mortgage for a fixed period of time to finance fixed assets or other capital acquisitions.

While banks will seek as much security for loans granted as possible, including shareholder guarantees and a charge on all assets of the company, operating loans would generally be secured by a security interest in the accounts receivable and inventory while term loans would be secured by a charge on the fixed assets. Interest rates on operating loans are generally negotiated by reference to the prime rate and the security offered by the borrower, and would vary with fluctuations in the prime rate. Interest rates on term loans are generally fixed at the time the loan is granted.

Equity markets

Equity financing for a portion of the capital required to start a business in Canada may be available through corporations whose objects include the provision of venture capital to new corporations or by way of a private placement of securities or by offering securities to the public. Venture capital companies usually seek a substantial minority position and a position of significant influence in the management of the company. The costs involved in complying with the relevant provincial securities legislation on public offerings can be significant and this route would normally be considered only if the funds required were substantial.

Accounting and auditing requirements

The information below is based on standards in place as of May 2008. Both generally accepted accounting principles (GAAP) and generally accepted auditing standards (GAAS) are changing in the near future.

In March 2006, the Canadian Accounting Standards Board (AcSB) adopted a Strategic Plan calling for the adoption of International Financial Reporting Standards (IFRS) by publicly accountable enterprises in Canada. The plan calls for a changeover date of 1 January 2011.

The AcSB is also working on a 'private enterprise strategy' and has decided on the following approach:

- the existing Canadian Institute of Chartered Accountants Handbook – Accounting will be used as a starting point

- the majority of the recognition and measurement standards in the existing Handbook, other than those that give rise to contentious issues, are relevant to the sector and will be retained with few, if any, modifications
- issues in the existing Handbook that have caused significant concern to private enterprises will be reconsidered, based on cost/benefit considerations
- the specific disclosure requirements will be re-evaluated and are expected to have considerably fewer disclosures than in the existing Handbook
- reducing the volume of material will be a secondary goal

The current expectation is that the working drafts will be completed by the end of 2008, and an Exposure Draft of proposed standards for this sector will be published in the first quarter of 2009.

The Canadian Auditing and Assurance Standards Board (AASB) is adopting International Standards on Auditing (ISAs). After the adoption of the ISAs, Handbook Sections dealing with the audit of financial statements will be called "Canadian Auditing Standards" (CASs) and will constitute GAAS.

The AASB developed guidelines for identifying the circumstances when it would consider modifying a proposed ISA in proposing to adopt it as a CAS. It is anticipated that such modifications will be rare. Any modification made to an ISA in adopting it as a CAS will be clearly identified in the CAS.

CASs will be effective for audits of financial statements for periods beginning after 14 December 2009.

Regulation of financial reporting

The principal source of authoritative guidance on GAAP and GAAS is found in the Canadian Institute of Chartered Accountants (CICA) Handbook. Although there are other accounting bodies in Canada, the CICA is the recognised organisation for establishing standards. The CICA Handbook contains the pronouncements of the Accounting Standards Board and the Auditing and Assurance Standards Board, the Emerging Issues Committee and the Public Sector Accounting Board, issued under the authority provided by the CICA Board of Directors.

Accounting principles are also influenced by research studies and other CICA publications; pronouncements and research in the US and internationally; and by federal or provincial legislation governing specific industries such as banking, insurance and trust companies.

Statutory reporting requirements

Financial reporting is required by federal and provincial corporation legislation and by the securities legislation and policy statements of the provincial securities commissions. Companies are governed by the Corporations Act under which they decide or are required to incorporate (that is, federal or provincial).

Note that there is no federal securities legislation. This function is regulated at the provincial level. The major stock exchanges are the Toronto Stock Exchange (TSX) and the TSX Venture Exchange. Both corporate and securities legislation require companies to follow the pronouncements of the CICA Handbook in preparing financial statements. There are limited exceptions for foreign issuers.

Publicly held companies are required to follow continuous disclosure rules implemented by the regulators. These rules require the annual filing of audited financial statements and management discussion and analysis (MD&A) with the applicable provincial securities commission. The rules also require the company to ask shareholders annually if they want to receive these documents. For TSX listed companies, the rules also require the filing of an annual information form (AIF).

CEOs and CFOs for TSX listed companies are required to certify that the internal controls over financial reporting are appropriately designed and are operating effectively.

Books and records

The books and records a business is required to maintain and the length of time those records must be retained are dictated by a number of federal and provincial acts. In addition to the general requirement to maintain adequate accounting records, corporate documents to be retained would include incorporation documents, minutes of director and shareholder meetings, by-laws and contracts.

Auditors and auditing requirements

The auditors of public companies must be participants in the Canadian Public Accountability Board (CPAB) oversight programme and they must have complied with any sanctions or restrictions imposed by CPAB.

For privately held companies, provincial and federal legislation generally requires the appointment of an auditor at the first annual meeting of shareholders, unless certain exemptions from the audit requirement are available. Audits may be required by banks and other credit agencies.

A company's independent auditors are normally appointed by the company's management and directors, whose decision must be ratified by the shareholders.

For public companies, the auditors must directly report to the audit committee and all services, both audit and non-audit, must be pre-approved by the audit committee before the work commences.

Auditors are subject to comprehensive independence rules prescribed by the relevant provincial institute or order that are harmonised with the independence rules promulgated by the International Federation of Accountants (IFAC) and which include additional prohibitions for reporting issuer entities that are consistent with those established by the US Securities and Exchange Commission (SEC). These independence rules are harmonised among all provinces except Québec and are intended to ensure that the auditor is independent in both fact and in appearance. This allows the auditor to be in a position to issue an unbiased opinion on the financial statements. Among other things, these rules prohibit direct and indirect financial interests in assurance clients, loans or guarantees with assurance clients, close business, family or personal relationships with assurance clients, and the provision of certain non-assurance services to assurance clients. The independence rules also require partner rotation on engagements with reporting issuer entities.

The auditor's report on the client's financial statements is based on reporting standards established in the CICA Handbook. The report states whether, in the auditor's opinion, the financial statements are presented fairly, in all material respects, in accordance with GAAP (or in limited situations, an appropriately disclosed basis of accounting). In certain circumstances, the auditor may be unable to render an unqualified opinion on the financial statements. In this case, either a qualified or adverse opinion would be issued, or the auditor may deny an opinion if he or she is unable to obtain the required audit evidence. A qualified opinion may be issued when the scope of the auditor's examination was restricted, the financial statements were not fairly presented or all the necessary disclosures were not made. A separate paragraph would be included in the auditor's report to explain the reasons for the qualification. When the auditor decides that the financial statements are so misleading that a qualified opinion is not sufficient, an adverse opinion, stating that the financial statements are not fairly presented, would be issued. The auditor would deny an opinion on the financial statements when the limitation on the audit scope is such that there is insufficient evidence to conclude that the financial statements are prepared in accordance with GAAP and the effect on the financial statements of possible departures from GAAP is believed to be pervasive or significant.

Form and content of financial statements

Financial statements should normally be prepared in accordance with GAAP and should, at a minimum, contain the following elements:

- balance sheet
- income statement
- statement of comprehensive income
- statement of retained earnings
- statement of cash flows
- notes to financial statements (including a summary of significant accounting policies)

It is also required (unless not meaningful) to present the financial statements with comparative figures for the previous period. The contents of the financial statements, including the notes, are the responsibility of management, regardless of who has actually prepared them or whether they are audited.

Consolidated financial statements

Consolidated financial statements are generally required if a company controls another company. Control in this case means the continuing power to determine the subsidiary's strategic operating, investing and financing policies. In determining whether consolidation is appropriate, the goal should be to provide the most meaningful financial presentation in the circumstances. In effect, substance should prevail over form. For example, even though a company owns less than 50% of the voting stock of another entity, it may have effective control if it holds notes that will be converted into a majority of the voting stock in the future.

The consolidated financial statements should disclose the parent company's consolidation policy. Inter-company transactions and balances should be eliminated in the consolidation process and any non-controlling interest should be stated separately, in both the consolidated income statement and the consolidated balance sheet. Subsidiaries' year-ends should coincide with that of the parent. Where there are different year-ends, appropriate disclosures should be made.

Where control does not exist, but joint control does exist, the proportionate consolidation method should be used. Accounting for an interest in such a joint venture using the proportionate consolidation method results in recognition by the venturer in its balance sheet of its share of the assets and liabilities of the joint venture, and in its income statement, of its share of the revenue and expenses of the joint venture.

Where control does not exist, but the investor has significant influence over the investee's strategic operational, investment and financial policies, the investment should be accounted for by the equity method. Under this method, the investment is initially recorded at cost and subsequently adjusted for the investor's proportionate share of the investee's profits or losses, which should be disclosed in the investor's income statement. Dividends received should be treated as a reduction of the investment.

When there is no significant influence, or where consolidation, proportionate consolidation or use of the equity method is not appropriate, the investment should be accounted for under the cost method, where the investor does not record its share of the investee's profits or losses, but records any dividends from the investee as income. However, any permanent impairment in the carrying value of the investment should be charged to income.

Valuation

Financial statements in Canada are based on either historical cost or fair value and are prepared on an accrual basis. Acquired assets are recorded at their original cost, which is then amortised over their estimated useful lives. When the value of an asset has been impaired, there is a requirement to write it down to its fair value. Inventories are stated at the lower of cost or net realisable value. Canadian entities have recently implemented new financial instruments standards which address when an entity should recognise a financial instrument on its balance sheet, and how it should measure the financial instrument once recognised. All financial instruments, including derivatives, are to be included on an entity's balance sheet and measured either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortised cost.

Notes to the financial statements

Items that would require disclosure by way of notes to the financial statements would include policies for or details of:

- revenue recognition
- inventory valuation
- amortisation methods for capital assets
- financial instruments
- long-term contracts
- foreign-currency translation methods
- consolidation principles.

Book and tax differences

The income-tax provision in the financial statements is based on accounting profits, which may differ substantially from taxable income, on which a company's tax liability is calculated. These differences may either reverse in future years (temporary differences) or may be permanent in nature. Future income-tax assets and liabilities will be recognised in the financial statements depending on the nature of the temporary differences and whether certain recognition criteria are met. Certain private companies can elect to record their income-tax provision based on the actual income taxes payable to the relevant taxation authorities rather than recording temporary differences or future income tax assets and liabilities. These companies need to provide certain appropriate disclosures.

3. The tax system

The tax structure

Taxing authorities

The constitutional authority for Canadian taxation is derived from the Constitution Act of 1867. The Parliament of Canada has legislative authority to raise money by any mode or system of taxation. The provincial legislatures have jurisdiction with respect to direct taxation within the province in order to raise revenue for provincial purposes. In addition, local authorities may have the right to levy property taxes, municipal business taxes and licence fees in some provinces. The Canadian system of income taxation is based upon self-assessment as there is reliance on the taxpayer to calculate and report income and pay the appropriate tax thereon.

Principal taxes

Taxes on income and gains

- corporation income tax
- individual income tax
- income tax on trusts and estates.

Taxes on transactions

- federal goods and services tax
- federal excise tax
- federal customs duties
- provincial retail sales tax
- provincial land transfer tax.

Taxes on property (where levied)

- municipal realty tax
- municipal business tax.

Taxes on payroll

- Canada Pension Plan
- Federal unemployment insurance (referred to as Employment Insurance or EI)
- provincial payroll taxes.

Taxes on capital

- Federal Large Corporations Tax (eliminated effective 1 January 2006)
- provincial corporate capital taxes.

Income-tax structure

Canada imposes income taxes on the world wide income of residents of Canada and on the income of non-residents from sources within Canada. Income taxes are imposed on corporations, individuals, trusts and estates.

International aspects

Foreign corporations and non-resident individuals and trusts are taxed on business income at the same rate as residents of Canada except for the incentives available to CCPCs carrying on an active business in Canada. In addition, Canada imposes a branch tax on the Canadian branch profits of a foreign corporation, which are not reinvested in the branch.

Non-resident corporations, trusts and individuals are also taxed on Canadian-source investment income and on gains from the disposal of certain specified Canadian investments described as taxable Canadian property (TCP). The prescribed rate of withholding on investment income is 25%. Gains on the disposition of TCP are taxed at ordinary rates applicable to corporations or individuals. Canada has an extensive network of income tax treaties. Under many of these treaties, the general withholding rate on Canadian-source investment income is reduced. Some treaties limit Canada's right to tax gains from the disposition of TCP.

Tax administration

The federal government administers and collects both provincial and federal personal income taxes for all provinces except Québec, and both federal and provincial corporate income taxes for all provinces except Québec, Ontario and Alberta. For taxation years which end after 31 December 2008, the Ontario corporate tax return will be eliminated and Ontario corporate tax will be collected with the federal corporate tax return.

4. Taxes on business

Corporate tax system

Corporations resident in Canada are subject to tax on their world wide income. Corporations that are not resident in Canada are taxable only on certain types of Canadian-source income. A corporation incorporated in Canada will be considered resident in Canada subject to a determination under the provisions of tax treaties, where issues such as mind and management may allow a different conclusion. Similarly, a corporation incorporated in a foreign jurisdiction may be considered resident in Canada if its mind and management is in Canada.

Taxable entities

Corporate tax is payable by corporations resident in Canada and by foreign corporations carrying on business in Canada. Under Canadian law, a corporation is an entity created by law having a legal personality and existence separate and distinct from the personality and existence of those who caused its creation or those who own it. A corporation does not include a partnership but a corporate member of a partnership is subject to tax on its share of the partnership's profits.

Taxable period

Corporations may choose either a calendar year or a fiscal period ending on the date of their choice.

Gross income

Accounting periods and methods

Taxable income is determined separately for each taxation year. A taxation year will be the fiscal period of the business, but may not exceed 53 weeks. Generally, a company's income is determined on the basis of accounts prepared on the historic-cost basis in accordance with GAAP. Specific statutory adjustments are then made to the accounting profits to arrive at a taxable profit. Adjustments would be made for such items as non-allowable expenses and depreciation. In addition, transactions with related parties including foreign affiliates at other than arm's length prices may be adjusted by the Canada Revenue Agency for income tax purposes. Corporations are restricted to the accrual basis of accounting. Reserve deductions may be available for amounts not yet due and for services which have not yet been rendered.

Inventory valuation

Inventory (stock) is generally valued for tax purposes at the lower of cost or market value, market value generally being net realisable value. Taxpayers can elect, however, to value all inventory at market value. Inventory reserves are not deductible, but taxpayers using the lower of cost and fair market value method can write inventory down to net realisable value. Cost is computed on either a first-in first-out (FIFO) basis or on an average cost basis. The last-in first-out (LIFO) method is not acceptable for tax purposes. Unless the corporation receives permission from the Canada Revenue Agency to change its inventory valuation method, the method selected must be consistently applied.

Interest

Interest is taxable in the year in which it is accrued (or received in the case of interest received on investments that are purchased and mature in the same year). If foreign interest is received net of withholding taxes, the gross interest income is included in income and the withholding taxes may generally be used as a credit against the corporation's income tax.

Dividends

Dividends received by one Canadian corporation from another are usually exempt when calculating taxable income but are subject to a separate refundable tax called 'Part IV tax'. For most dividends, the rate is 33.3%. This tax is refunded when the recipient corporation pays dividends to its shareholders at the rate of CAD 1 for every CAD 3 of dividends paid.

If dividends are received from a connected corporation, the Part IV tax is equal to the dividend refund received by the payer corporation on that portion of the dividend paid. Two corporations are connected if the recipient corporation holds capital stock representing more than 10% of the votes and 10% of the fair market value of the payer corporation. Two corporations are also connected if the payer corporation is controlled by the recipient or by persons related to the recipient.

Royalties

Royalties are considered taxable income. Foreign withholding taxes will generally be claimed as a credit against domestic income tax.

Management fees

Management fees are taxable when they are earned.

Deductions

Depreciation

The methods of depreciation for accounting purposes are disregarded for tax purposes and replaced by special rates of capital cost allowance (CCA) as prescribed by regulation. In some cases, these rates are accelerated to provide an incentive to acquire specific capital properties. Tax depreciation is optional and may be forgone in a given year in favour of utilising loss carry-overs. An important feature of the capital cost allowance system is the grouping of property into classes. Some of the more common classes are as follows:

Class 1 (4%)	most buildings or other structures, including component parts such as electrical wiring and fixtures, plumbing, heating and central air conditioning, acquired after 1987
Class 8 (20%)	miscellaneous tangible capital property, such as fixtures, furniture and outdoor advertising signs, and machinery or equipment, such as photocopiers, refrigeration equipment, telephones and tools costing CAD 200 (CAD 500 proposed by the Federal budget of 2 May 2006) or more not included in another class
Class 12 (100%)	tools, instruments and kitchen utensils costing less than CAD 200 (CAD 500 proposed by the Federal budget of 2 May 2006) and computer software
Class 13	leasehold interest
Class 43 (30%)	manufacturing and processing machinery and equipment acquired after 25 February 1992 and
Class 45 (45%)	general-purpose electronic data-processing and ancillary equipment acquired after 22 March 2004 and systems software. (Note that under Draft Regulations, Class 45 will no longer apply to property that is general-purpose electronic data-processing equipment and systems software for that equipment if the property is acquired after 18 March 2007, because the new class 50 will apply to such property. In this regard, in Draft Regulations,

Class 50 provides a 55% capital cost allowance rate to such equipment acquired after 18 March 2007).

Amortisation

Intangible items such as goodwill, trademarks or trade names are included in an eligible capital-expenditure (ECE) pool, which is amortised at a 7% annual declining-balance rate. Only 75% of the original intangible property cost is included in the ECE pool. Similarly, on a sale, only 75% of the proceeds are credited to the pool. Gains on the disposal of eligible capital property will be included in income at a rate of 50%.

Interest expense

Interest is generally deductible to the extent that it is paid on money borrowed for the purpose of earning income from a business or property. Instalment or penalty interest charged by the Canada Revenue Agency is not deductible for tax purposes.

The deduction of interest expense related to vacant land holdings or to land and buildings during a construction period can be restricted. The portion of the interest that is not allowed as a deduction is capitalised.

Furthermore, the deduction of interest may be limited by thin capitalisation rules, which provide that a portion of the interest expense on interest-bearing debt owed to specified non-residents (non-resident shareholders who alone or together with a group of persons with whom the shareholder does not deal at arm's length, own directly or indirectly 25% or more of the Canadian company) will be disallowed if such debt exceeds two times the non-resident's equity in the subsidiary. Equity includes retained earnings as well as surplus contributed by specified non-residents. In determining the debt-to-equity ratio, the debt is equal to the average of the greatest total amount of debt owing by the corporation to specified non-residents at any time in each month of the year. The equity is the total of the corporation's retained earnings at the beginning of the year, plus the average of its contributed surplus at the beginning of each month of the year and the average of its paid-up capital at the beginning of each month of the year, to the extent they are attributable to specified non-residents.

Employee remuneration

Remuneration for personnel services is deductible to the extent that payments are made for the purpose of gaining or producing income from business or property. Remuneration related to the cost of construction or acquisition of capital assets must generally be capitalised as part of the asset cost.

Employee benefits

In general, employers may deduct the cost of employee benefits, including retirement plans, health, accident and group life insurance and worker's compensation.

Insurance premiums

Insurance premiums are deductible if incurred in connection with a corporation's trade or business. Life insurance premiums paid by a corporation on the life of an individual where the company is the beneficiary are generally not deductible unless the policy is assigned as collateral security for a loan and various other conditions are met. If the corporation is not the policy beneficiary, the premiums will be considered a taxable benefit to the individual and a deductible cost for the corporation.

Bad debts

Corporations may take a deduction for specific trade receivables that are considered non-collectible. A reserve is also allowed for some or all of a trade receivable where the prospect of collection is doubtful.

Charitable donations

Gifts to registered charities may be deducted in computing taxable income subject to certain income limitations. Unused donations may be carried forward five years and applied to reduce net income subject to the income limitations in those carry-forward years.

Meals and entertainment

Meals and entertainment are only 50% deductible when calculating net income for tax purposes.

Service fees

Charges for central management or administration expenses may be in the form of an expense allocation or management fee and can be categorised as follows:

- expenses, such as the cost of administering a payroll, which are specifically incurred for the benefit of a single company in a related group and are directly attributable to the services
- expenses that are incurred for the benefit of a number of companies in a related group, which are shared costs
- management services.

The allocation of central management or administration expenses or the charging of management fees may present a problem if the Canadian corporation cannot establish that its profitability was improved by virtue of incurring the common expense.

For example, an allocation of costs to maintain a foreign parent's corporate status would not normally have a direct impact on Canadian profitability, and according to the Canada Revenue Agency, should be deducted by the parent against investment income received from foreign subsidiaries. The reimbursement of a specific cost incurred by a non-resident on behalf of a Canadian taxpayer is acceptable. In the case of management fees, the reasonableness of any management fee paid is a question of fact that can only be determined in light of the services actually rendered. In determining the reasonableness of a fee, the Canada Revenue Agency states that the following factors should be considered:

- the nature of the services rendered
- the time expended in performing those services
- the fees that would be paid to obtain similar services from other sources.

Non-deductible items

Items that are not deductible for tax purposes include:

- any outlay or expense to the extent that it was not made for the purpose of gaining or producing income from business or property
- non-arm's length expenses in excess of a reasonable amount
- capital expenditures such as purchases of capital assets
- club dues (subscriptions) and other recreational costs.

Legal and other expenses incurred to borrow money or issue shares are deductible only on a straight-line basis over 60 months.

Capital gains

Capital gains are not taxed separately, but only 50% of the gain is included in income. Capital losses are only deductible against capital gains, with a carry-over provision available whereby losses can be carried back three years and carried forward indefinitely.

To the extent that capital cost allowance (tax depreciation) has been taken on capital assets, proceeds in excess of the undepreciated capital cost (but not exceeding the original capital cost of the item) will be considered recaptured depreciation and are included fully in income.

Net operating losses

Business losses may be applied against income of any type (including capital gains) arising in the current year. To the extent that net operating losses arise and are not claimed in the current year, they may be carried back to reduce taxable income for the preceding three years or forward twenty years. The carry-forward period was ten years for losses arising in taxation years ending after 22 March 2004 and before 2006 and seven years for losses arising in taxation years ending before 23 March 2004.

Elaborate rules exist to restrict the utilisation of both realised and unrealised tax losses where control of the corporation is acquired by an arm's-length purchaser. Where control of a corporation has been acquired, the taxation year of the corporation will be deemed to have ended immediately before the acquisition. In addition, where the fair market value of depreciable property, goodwill, or accounts receivable is less than their tax cost, the company will be deemed to have disposed of those assets. The resulting loss arising from the deemed disposal of assets will be considered a loss arising in the year prior to the acquisition of control.

Where the business of an acquired company is continued after a change in control with an expectation of profit, losses incurred prior to the acquisition of control may be carried forward and claimed to reduce income derived from the loss-making business or a similar business. Similarly, losses arising after a change in control can only be carried back to reduce income derived from the same or similar business. Capital losses and losses carried forward from property cannot be claimed after an acquisition of control.

Group taxation

Canada does not legislate for any special treatment of groups of companies. An income tax return must be filed for each incorporated entity. Consolidated income tax returns are not permitted, and there is no facility for transfers of losses between group companies.

Thin capitalisation

Canada does have thin-capitalisation rules. See under 'Interest expense' above.

Transfer pricing

Transfer-pricing rules apply for transactions between a Canadian resident and non-residents where the parties do not deal at arm's length. Specific documentation requirements and substantial penalties for non-compliance with the transfer-pricing rules and requirements apply. The rules will ensure non-arm's length parties transact at arm's length prices and the determination of these prices is properly documented.

Controlled foreign company (CFC) rules

Canada has CFC rules.

Earnings of a foreign affiliate of a Canadian shareholder from the conduct of an active business carried on outside Canada will only be subject to Canadian tax, if at all, when those earnings are remitted to Canada. A foreign affiliate of a Canadian shareholder is a non-resident company in which the Canadian shareholder owns at least 1% of any class of shares and together with related persons owns, directly or indirectly, not less than 10% of any class of shares.

Income from property or income "from a business other than an active business" earned by a controlled foreign affiliate of the Canadian shareholder is taxable in the hands of the Canadian shareholder on an accruals basis in Canada, as if the income were earned directly by the Canadian shareholder. This is known as foreign accrual property income or FAPI. FAPI also includes income from an 'investment business', which is a business the principal purpose of which is to derive certain types of income considered passive, unless the business has more than five full-time employees. A deduction is available in respect of a FAPI inclusion equal to a grossed-up amount of the foreign tax reasonably considered to relate to the FAPI. A controlled foreign affiliate of a Canadian shareholder is a foreign affiliate of that shareholder that is controlled by that shareholder, or that would be controlled by the Canadian shareholder if the shareholder owned each share of the foreign affiliate that is owned by the shareholder, a person not dealing at arm's length with the shareholder, any of not more than four other persons resident in Canada, or a person not dealing at arm's length with any of those four other persons resident in Canada. A controlled foreign affiliate of a Canadian shareholder also includes a foreign affiliate where the Canadian shareholder has elected for it to be a controlled foreign affiliate under Canada's proposed foreign investment entity rules.

Tax computation

Net income for tax purposes utilises accounting profit as a basis, then adds items to be included for tax purposes and deducts items considered specifically deductible. Net income for tax purposes is then reduced by deductions such as loss carry-overs, inter-corporate dividends and donations. The corporate tax rates are applied to taxable income in arriving at taxes payable. Unlike the tax rates for individuals, which are graduated, corporate rates are fixed.

Tax rates

Taxes on corporations are imposed by both the federal and provincial governments. Accordingly, total corporate and personal tax rates will vary province by province. Preferential rates are generally allowed on earnings of a Canadian-Controlled Private Corporation (CCPC) up to the 'small-business income limit'. For calendar year 2008, the limit for federal tax purposes is CAD 400 000 (EUR 256 275; USD 375 400).

Note that certain provinces have increased their small-business income limit even higher than the federal limit. Certain provinces also provide preferential rates for corporations carrying on manufacturing and processing. The tax year of individuals and most trusts other than estates is generally the calendar year.

The federal government and certain provinces have implemented corporate tax-rate reductions over the past few years. As of 1 July 2008, current combined corporate tax rates are as follows:

Table 1

	Canadian-controlled private corporations (CCPCs)		Other corporations	
	Active business income (ABI)	**Investment income**	**Manufacturing and processing**	**Other income**
Province or territory:	%	%	%	%
British Columbia	14.50%	45.67%	30.50%	30.50%
Alberta	14.00%	44.67%	29.50%	29.50%
Saskatchewan	15.50%	46.67%	29.50%	31.50%
Manitoba	13.00%	47.67%	32.50%	32.50%
Ontario	16.50%	48.67%	31.50%	33.50%
Québec	19.00%	46.07%	30.90%	30.90%
New Brunswick	16.00%	47.67%	32.50%	32.50%
Nova Scotia	16.00%	50.67%	35.50%	35.50%
Prince Edward Island	14.20%	50.67%	35.50%	35.50%
Newfoundland	16.00%	48.67%	24.50%	33.50%

	Canadian-controlled private corporations (CCPCs)		Other corporations	
	Active business income (ABI)	Investment income	Manufacturing and processing	Other income
Province or territory:	%	%	%	%
Yukon	15.00%	49.67%	22.00%	34.50%
Northwest Territories	15.00%	46.17%	31.00%	31.00%
Nunavut	15.00%	46.67%	31.50%	31.50%

Tax credits

Credits against tax liability are allowed for the following:

Foreign taxes paid on foreign-source income

A deduction from federal taxes otherwise payable is allowed for the amount of taxes paid on foreign-source income to the government of a foreign country, but cannot exceed Canadian federal tax payable on that income. A credit must be calculated for each foreign jurisdiction separately.

Foreign taxes are divided into two types: business taxes related to income from carrying on business in a foreign country, and non-business taxes related to other sources of income. If business taxes are not totally claimed to reduce federal tax, the excess can be carried forward for ten years or carried back three years to reduce Canadian tax on foreign business income from the same country. Note that unused foreign tax credits from taxation years ending before 23 March 2004 can be carried forward seven years only. If non-business taxes remain unclaimed after a federal tax credit, the excess can be claimed to reduce provincial taxes payable on the foreign income. If an excess still remains, the amount may also qualify as a deduction in arriving at net income. Unused non-business taxes cannot be carried over to other taxation years, but may be allowed as a deduction during the year in certain situations.

Research and development credits

Federal tax credits at 20% (35% for qualifying CCPCs) are available for qualified expenditures in respect of research and development. In addition, many provinces provide incentives in the form of deductions in arriving at provincial net income or tax credits against provincial taxes payable for research conducted in a province.

Taxation of foreign corporations

A foreign corporation is subject to Canadian income tax on income derived from carrying on business in Canada, on passive income from Canadian sources and on gains from disposals of taxable Canadian property (TCP). The Canadian tax liability of a foreign corporation may also be governed by a tax treaty. In general, a treaty will limit the taxation of foreign corporations to the profits attributable to a Canadian permanent establishment. For taxation years that begin after 1998, non-residents carrying on business in Canada without a permanent establishment in Canada, and therefore not taxable in Canada due to the provisions of a tax treaty, are required to file a return with the Canada Revenue Agency within six months of their year-end to report information concerning claims for treaty-based exemptions. A tax treaty may also reduce withholding tax rates on passive income from the statutory rate of 25% to a substantially lower rate and dictate which jurisdiction can tax gains from the sale of capital property.

Trading as a branch

A foreign corporation operating in Canada through a permanent establishment or branch is subject to Canadian tax on the profits earned through that establishment at regular corporate rates. In addition, branch tax is payable on those profits (see below). The branch may deduct an allocation of head-office expenses, including interest paid, in calculating its taxable income provided that the expense amounts relate to income earned in Canada. Documentation of these expenses is mandatory for all taxpayers.

The tax liability of a branch is calculated in the same way as that of other Canadian corporations. Interest or other passive income of the branch may be subject to withholding taxes rather than the general rates of tax relating to business activity.

Branch tax

In addition to the income taxes payable by all corporations that carry out business in Canada, a non-resident corporation carrying on business through a branch may also be subject to a branch profits tax. The branch tax is intended to equate the Canadian income tax position of a branch to that of a Canadian subsidiary of a non-resident company. When a Canadian subsidiary pays dividends to non-residents, the dividends are subject to withholding taxes. The branch tax is levied on income net of an investment allowance. The allowance is intended to represent the amount of profits that have been reinvested in the business. Income in excess of the allowance would have been available for withdrawal from Canada and is therefore subject to branch tax.

Branch tax is levied at a rate of 25% or such lower rate as allowed under the relevant double taxation treaty. In general, the rate applied will be the same as the rate of withholding tax for dividend payments. An exemption from branch tax on the first CAD 500 000 (EUR 320 350; USD 469 250) of branch earnings is available under certain tax treaties.

Income from Canadian subsidiaries

Dividends

A Canadian subsidiary must withhold a 25% income tax on dividends paid to its foreign parent unless a lower withholding tax rate is dictated by a tax treaty with the home country. The withholding tax rate may be reduced or eliminated under a tax treaty by a direct dividend exemption or by a general rate reduction.

Interest

From 1 January 2008, withholding tax on arm's length outbound interest payments to residents of all countries has been eliminated. Withholding tax at the statutory rate of 25% applies on interest payments to non-arm's length non-residents. This rate may be reduced or eliminated under a tax treaty.

Royalties

Royalties are subject to the withholding tax rate of 25% unless the rate is reduced by a tax treaty.

Rental income

For tax purposes, rental properties include any real estate acquired for the purpose of earning income from renting or leasing the property. They range from residential accommodation such as houses and apartment buildings, to commercial real estate such as shopping centres, factories and office buildings.

Rental income earned by a foreign company owning a property in Canada may be taxed as income from carrying on a business. The rental property would be a branch and the company would be taxed on the income attributable to it. Alternatively, the rental income of a foreign company could be treated as property income. The determination would depend on the facts and circumstances of each case, and would hinge on the level of involvement and management required by the foreign directors/shareholders, and the extent and diversity of other operations and activities of the company. If rental income is property income, the gross rents would be subject to 25% withholding at source.

A foreign corporation can elect annually to have the withholding made on the net rental income (before depreciation), provided a tax return is filed within six months of the end of the taxation year under election. Under such an election, the tax position of the corporation becomes the same as if the rental income had been treated as business income, except for a potentially different pattern of monthly tax payments (withholdings rather than instalments).

If this election is not made, gross rents would be subject to withholding tax. The corporation can still file an elective return within two years of its year-end, report rental income net of expenses and recover the excess withholding tax.

Capital gains on Taxable Canadian Property (TCP)

Non-resident corporations are subject to Canadian tax on the sale of TCP, which produces a capital gain or loss on disposal. TCP includes the following:

- real estate (land and buildings) situated in Canada, or an interest therein (not to include mortgages)
- property used or held in a business in Canada, including capital property, eligible capital property and property included in the inventory of the business (some exclusions apply)
- designated insurance property for the year of a taxpayer that is an insurer
- shares of a private corporation resident in Canada
- a capital interest in a trust resident in Canada
- a unit of a unit trust resident in Canada
- an interest in a partnership if at any time during the 60 months preceding the disposal, the fair market value of property that was a Canadian-resource property, a timber-resource property, an income interest in a resident trust, an interest or option in respect of these properties, or a TCP was greater than 50% of the aggregate of the fair market value of all partnership property
- a share of a public corporation, mutual fund corporation or a unit of a mutual fund trust, if during the 60-month period preceding the disposal, the taxpayer and a person with whom the taxpayer does not deal at arm's length, owned 25% or more of the issued shares of any class of the capital stock of the corporation that issued the shares or 25% or more of the issued units of the mutual fund trust
- an interest in a foreign corporation or trust if at any time during the 60-month period preceding the disposal more than half of the entity's property, held directly or indirectly, consisted of Canadian real estate (or other TCP) and more than half of the value of the shares or trust interest was derived from real estate in Canada or resource properties.

Disposals of property that may give rise to ordinary taxable income or losses to a non-resident include the following:

- a Canadian-resource property
- a timber-resource property
- an income interest in a trust
- a retired partner's right to share in the income or loss of a partnership
- a life-insurance policy in Canada.

In addition, where a disposal of depreciable property is deemed to have taken place, depreciation previously deducted in determining net income for Canadian income tax purposes may be recaptured as income.

The taxation of gains on TCP is a two-part process. An advance tax is due at the time of sale. The foreign corporation later files a corporate return to report the gain and the advance tax is claimed as a credit. For non-depreciable property the advance tax payable at the time of sale is equal to 25% of the gain. If depreciable assets are sold and recapture arises, advance tax is also due on the recapture amount at regular corporate rates. The non-resident vendor must file prescribed forms within 10 days of the disposal and must pay the estimated tax or post security with the Canada Revenue Agency when the forms are filed. If the vendor fails to file the requisite forms and pay or post security for the estimated tax, the advance tax becomes 25% of the proceeds and is required to be withheld by the purchaser and remitted to the government.

Most tax treaties entered into by Canada provide an exemption for gains realised on the disposal of shares unless more than 50% of the value of those shares is attributable to Canadian real estate held by the corporation.

For dispositions of TCP by a non-resident vendor after 2008, proposed changes will exempt the purchaser from having to withhold tax on the disposal of the TCP if the gain on the disposal would not result in any Canadian tax due to the provisions of a tax treaty that Canada has with the country where the vendor is resident. The purchaser would only be required to file a notice with the CRA within 30 days of the disposal, setting out basic information about the disposal and the vendor.

Taxation of foreign operations

A Canadian corporation that has foreign operations will be taxed as follows:

Branch operations

The Canadian company will include in its income subject to tax the results of the branch operations outside Canada calculated under Canadian tax rules. The foreign branch accounts should be drawn up using GAAP. Relief for foreign tax paid on the branch profits is available against Canadian tax on branch profits. However, timing differences in the recognition of income or expense items and differences in the basis for computing taxable income between Canada and the jurisdiction in which the foreign branch is located may affect the ability to utilise foreign tax credits in respect of branch income.

Income from foreign subsidiaries

See under 'Controlled foreign company rules' above.

Capital gains

Gains on the sale of shares in foreign subsidiaries or on the disposal of branch assets are subject to tax in Canada. However, an election is available to treat all or a portion of the proceeds of disposal of the shares of a foreign affiliate as a dividend, effectively converting what might otherwise be a capital gain to dividend income.

Dividends

Some dividends received from foreign affiliates (defined above) may be received tax-free (exemption method) while other dividends may have to be included in income with allowance for foreign taxes imposed (credit method). The distinction that is made in applying the exemption or credit method will depend upon the nature of the earnings (active or passive) and/or the country in which the income is earned. For purposes of applying the rules, dividends are categorised as being paid out of the following three surplus categories in this order:

Exempt surplus (exemption method). In general, exempt surplus is the net income after taxes earned by a company resident in a treaty country from carrying on an active business in that or other treaty countries. A treaty country is a country that has a comprehensive treaty or convention in force with Canada for the elimination of double taxation on income. A deduction is claimed to exempt these dividends.

Taxable surplus (credit method). Taxable surplus includes passive income, non-active business income, and earnings of the affiliate from carrying on an active business in a non-treaty country. A record of related foreign taxes paid must be compiled and when dividends are paid out of taxable surplus, a credit is allowed for the underlying foreign taxes paid as well as for withholding taxes. Therefore, Canadian taxes will only be imposed to the extent that the Canadian tax on the earnings exceeds the effective foreign tax paid by the affiliate. Also, when a dividend is paid out of previously taxed FAPI by a controlled foreign affiliate, an offsetting deduction can be claimed since this income was taxed previously in Canada.

Pre-acquisition surplus. Dividends paid by a foreign affiliate are considered to be paid first out of exempt surplus, then out of taxable surplus. Once the balance in these surplus accounts has been exhausted, further dividends are considered paid out of pre-acquisition surplus. A dividend paid out of pre-acquisition surplus will be treated as a return of capital and will reduce the adjusted cost base of the shares of the foreign affiliate.

Interest income earned

Interest income from foreign operations is subject to Canadian tax on an accrual basis with credit given for foreign withholding tax.

Royalties received

Foreign royalties earned while carrying on business in Canada are also taxable on an accrual basis with credit given for foreign withholding taxes.

Partnerships and joint ventures

Tax treatment

A partnership is treated as a separate entity for the purpose of calculating income for tax purposes. However, a partnership is not a taxable entity and the taxable income of the partnership is allocated to individual partners. Each partner is required to include his share in his own income. The income allocated generally retains its character. A partnership with six or more members is required to file an annual information return.

For Canadian tax purposes, a partnership interest is generally treated as capital property and therefore the disposal of a partnership interest can result in a taxable capital gain or an allowable capital loss. Also, if more than 50% of the value of a partnership's assets is derived from taxable Canadian property, the partnership interest will be deemed to be taxable Canadian property and is subject to tax as discussed above.

Taxation of foreign partners

Non-resident partners will be taxed in Canada on their share of the income earned by the partnership in Canada. A non-resident individual partner is required to file an individual income tax return by 15 June of the year following the year in which the fiscal year of the partnership ends.

A non-resident corporate partner would pay tax on its share of income at corporate tax rates and would, in addition, be subject to branch taxes on partnership income. A non-resident corporate partner would include its share of income in its return for the taxation year that included the year-end of the partnership.

Joint ventures

A joint venture is not a taxable entity and is not required to file a tax or information return. The income/expense distribution to joint-venture participants is usually governed by a joint-venture agreement and participants recognise their proportionate share for tax purposes.

Typically, a joint venture is used to bring together several parties on a project with a limited life, such as real estate development, and oil and gas exploration. Under a joint-venture arrangement, each member of the joint venture usually retains ownership of the property and assets contributed to the operation or a proportionate share of assets acquired, and is entitled to claim depreciation for tax purposes. This method of allowing claims for depreciation at the joint-venturer level contrasts with that for a partnership, which must claim depreciation at the partnership level.

Non-residents providing services in Canada

Any person (whether resident or non-resident in Canada) who pays a non-resident (an individual, corporation, partnership, joint venture, limited liability company or other) a fee, commission or other amount for services (of a non-employment nature) provided in Canada, is liable to withhold tax at 15% of the gross payment. The person is generally required to remit this amount to the Canada Revenue Agency by the 15th day of the month following the month in which the amounts were deducted or withheld. Failure to deduct or remit an amount makes the payer liable for the outstanding amount, plus interest and penalties.

The 15% withholding is not a definitive tax. Rather it is considered a payment on account of the non-resident's tax liability in Canada. Non-residents of Canada who feel that the withholding tax is more than their actual tax liability to Canada, based on tax-treaty protection or their estimated income and expenses, may apply to have the tax waived or reduced. If the application is approved, the Canada Revenue Agency will authorise the payer to not withhold or withhold at a reduced rate.

Non-residents who have carried on business in Canada are normally taxable in Canada on their income from such activities and are therefore required to file a Canadian income tax return to calculate their tax liability or to claim a refund of any excess amounts that were withheld. If a non-resident is not taxable due to the provisions of a tax treaty, they are required to file a return to report information concerning claims for treaty-based exemptions, and will be able to claim a refund of the amounts withheld.

Non-resident trusts and foreign investment entities

In November 2006, draft legislation was re-released with respect to the taxation of non-resident trusts and foreign investment entities. For non-resident trusts, the proposed rules generally provide that any non-resident trust will be taxable in Canada if a Canadian resident has contributed property to the trust – even when there are no Canadian-resident beneficiaries. The Canadian contributor, the non-resident trust (and, to some extent, certain specified Canadian beneficiaries), will be jointly and severally liable for the trust's Canadian tax liability. Note that trusts set up on immigration to Canada (known as immigration trusts) will not be caught by the new rules – these trusts will only be deemed to be resident in Canada once the individual who has contributed the property to the trust has been resident in Canada for five years. For a foreign investment entity, which is generally a non-resident entity that owns investment properties with a carrying value exceeding 50% of all of its property, or whose principal undertaking is the carrying on of an investment business, the proposed rules generally provide that Canadian investors will be required to include an amount from their investment in the foreign investment entity in taxable income. For taxation years beginning after 2006, under the new rules, investors have three methods of calculating their investment income from a participating interest in a foreign investment entity: (1) the mark-to-market method if their interest has a readily available fair market value; (2) the accrual method (based on their share of entity-level income) if the required information is available; and (3) the imputed income method (based on a prescribed rate applied to the designated cost of the interest). The non-resident trust and foreign investment entity proposals are generally effective for taxation years beginning after 2006. The legislation that implements these rules (Bill C-10) has been passed by the House of Commons and is currently held up in the Senate. No movement is expected on Bill C-10 until the autumn of 2008.

Compliance and returns

The Canadian tax system is based on self-assessment. Corporations file returns annually to report taxable income and compute the amount of tax due or refundable. The due date for filing is six months after the end of the fiscal year. Extensions are not granted.

The federal return must include the General Index of Financial Information (GIFI), which reports information from the corporation's financial statements, a reconciliation of taxable income with income for financial statement purposes, and responses or schedules resulting from a series of questions forming part of the return. The provincial returns do not require the GIFI, but Ontario and Québec returns must include the corporation's financial statements (this requirement will be eliminated for Ontario for taxation years which end after 31 December 2008). In addition, a separate return is required to report certain transactions of the corporation with non-arm's length non-residents. There are also rules which require the disclosure of foreign investments including investments in foreign affiliates and offshore trusts. The Canada Revenue Agency also requires the reporting of foreign property holdings that exceed CAD 100 000 (EUR 64 075; USD 93 850).

Other information returns are due if dividends or other investment income are paid by a corporation, trust or individual to Canadian residents, or if wages and salaries are paid to employees (see below). These returns are generally prepared on a calendar-year basis and are due on the last day of February of the following year. In the case of payments to non-residents, information returns are due on 31 March of the year following the year of payment.

Payment and collection

Instalments on account of the corporation's estimated liability are due monthly, beginning in the first month of a fiscal period. The final payment of corporate income tax must be made within two months of the end of the fiscal year. Certain CCPCs can remit their balance of tax within three months without interest. Interest is charged on instalments that are not made or are deficient.

Assessment and reassessment of tax

After a filed return has been reviewed, the relevant federal and provincial authorities will issue a notice of assessment. The date of mailing is important, as it establishes the commencement of the time period during which the return may be reassessed or the taxpayer may file a formal notice of objection to an assessment.

Tax audits

The usual period during which the Canada Revenue Agency may issue a notice of reassessment to vary the amount of tax initially assessed is three years for CCPCs and four years for most other corporations from the date of mailing of an original notice of assessment. After the expiry of that reassessment period, transactions generally become statute-barred for income tax purposes – that is, the tax consequences of a transaction reported in a tax return generally cannot be changed. The reassessment period is extended by three years (to six and seven years, respectively) for cross-border transactions. In the case of reassessments involving fraud or misrepresentation, there is no fixed time limit for reassessment.

Appeal procedures

If a corporate taxpayer does not agree with a federal assessment or reassessment, the taxpayer must, within 90 days of the mailing date of the notice of assessment, file a notice of objection to preserve its right to pursue an adjustment. After a notice of objection has been filed, it will be reviewed by an appeals officer, who will decide either to uphold the taxpayer's objection or confirm the assessment. If an assessment is confirmed by an appeals officer, the taxpayer has 90 days to file an application to the courts to decide the issues involved. Similar procedures apply for provincial income and capital tax returns but the specific process and time period for objecting does vary.

Goods and Services Tax

Canada has adopted the goods and services tax (GST), which is a value-added tax on consumption of both goods and services supplied in Canada. The tax is levied on most kinds of supplies of goods, real estate, intangible property and services, whether through sales, rentals, leases, transfers, barters, exchanges or licensing arrangements. At each stage of the production and distribution chain, the GST is applied to the transfer of taxable supplies. Registered suppliers may claim credits for the GST that they have paid on their purchases (input tax credits). Consequently, for each reporting period, only the difference between the GST collected on sales and the GST paid on purchases is remitted.

Tax rates

From 1 January 2008, most types of supplies are taxable at a 5% rate (with effect from 1 January 2008 the GST rate was reduced from 6% to 5%. Prior to this, with effect from 1 July 2006, the GST rate was reduced from 7% to 6%.). Some supplies are categorised as tax-free (or zero-rated) or as tax-exempt. Businesses that make tax-free supplies carry on commercial activities and are able to claim input tax credits for GST on most disbursements with few limitations or exclusions. However, these businesses will not collect GST on sales and other tax-free supplies because the GST is levied at a 0% rate.

In contrast, businesses that make tax-exempt supplies are deemed not to be carrying on a commercial activity and do not charge or collect GST on sales and services rendered. In addition, these businesses are treated in the same manner as Canadian final consumers, in that no input tax credits are available to them for GST paid on purchases.

Property

Most transactions involving commercial real estate and new residential properties are subject to GST. However, different rules apply depending on the circumstances and status of the vendor and purchaser and the nature of the property sold. Since this is a complicated area, prospective purchasers or vendors of real estate should seek specific advice well in advance of the purchase or sale.

Supplies in Canada

In general, only supplies made in Canada are taxable. However, there are several rules governing supplies made within Canada and supplies made outside Canada. If a non-resident person supplies tangible or intangible goods or services in Canada, the supply is deemed to take place outside Canada unless the non-resident person is carrying on business in Canada and is registered to collect GST.

The collection mechanism

The Canadian government has provided for several GST collection methods. The primary method is the registration of all business entities carrying on commercial activities in Canada and making more than CAD 30 000 (EUR 19 225; USD 28 150) in revenue through supplies taxable at 5% or 0%. Registered entities act as collection agents, levying and collecting the appropriate amount of GST on sales and other taxable supplies. Only registered entities are permitted to claim input-tax credits. These entities will remit the difference between the GST collected and the GST paid on purchases to the Canada Revenue Agency on a periodic basis. Monthly, quarterly or annual returns must be filed (depending on the volume of annual sales made by the person) along with a payment of the difference between GST collected on sales and GST paid by the supplier on purchases. Alternatively, the registered entity can claim a refund from the Canada Revenue Agency if the GST paid or payable on purchases exceeds the GST collected on revenues.

The Canada Revenue Agency or licensed customs brokers will collect GST on taxable goods imported into Canada. The GST will be imposed at the border whether or not the importer of record is registered to collect GST. However, GST will not be imposed on imported intangible goods, such as royalties for the use of the name of a non-resident individual or corporation, or services, such as legal services.

Consumers and business entities not carrying on commercial activities, such as banks or insurance companies making tax-exempt supplies, are required to self-assess the GST payable on certain intangible property and services imported into Canada.

Considerations for non-resident entities

Whether a non-resident entity is to register with the Canada Revenue Agency depends on whether the entity is carrying on business in Canada. It should be noted that under most income tax treaties into which Canada has entered, a foreign entity will not be taxed on business income in Canada if it does not have a permanent establishment in Canada. This exemption does not apply for GST purposes, so the GST could apply to foreign entities not subject to Canadian income tax.

The factors that the Canada Revenue Agency will consider, both in a traditional and electronic commerce environment, in determining whether a non-resident person is carrying on business in Canada in a particular situation include:

- the place where the contract for a supply was concluded
- the place where the operations that produce the profits take place
- other factors that indicate ties, including:
    - the place where agents or employees of the non-resident are located
    - the place of delivery
    - the place of payment
    - the place where purchases are made
    - the place from which transactions are solicited
    - the location of an inventory of goods
    - the place where the business contracts are made
    - the location of a bank account
    - the place where the non-resident's name and business are listed in a directory
    - the location of a branch or office
    - the place where the service is performed
    - the place of manufacture or production.

The importance of the other factors in a specific case depends upon the nature of the business activity under review, and, as always, the particular facts and circumstances of each case. After taking into account the factors listed, a non-resident person is generally considered to be carrying on business in Canada if that person has a significant presence in Canada. Furthermore, it should be noted that if specified activities are carried on in Canada, the entity will be deemed to be carrying on business. Examples include soliciting orders for publications and admissions charged for seminars and other events. The CAD 30 000 (EUR 19 225; USD 28 150) small-supplier threshold is not available for admissions.

The uncertainty in interpreting the term 'carrying on business' with respect to non-residents can result in a potential GST liability where the non-resident does not register to collect the GST but is subsequently assessed by the Canada Revenue Agency for failure to collect the GST because the Canada Revenue Agency believes that the non-resident is carrying on business in Canada. Although it would be possible to bill customers for the GST, collecting the tax subsequent to a sale may be difficult. Also, interest and penalties will be due on the unremitted tax. Therefore, non-residents contemplating expansion of their business activities into Canada should obtain specific advice prior to expansion.

Visitor rebate

On 25 September 2006, the Government of Canada announced the elimination of the GST Visitors' Rebate Program, with effect from 1 April 2007. Under the Visitor Rebate Program, non-resident individuals visiting Canada were entitled to claim a rebate of the GST paid on purchases by them in Canada, provided they took the goods with them when they left the country. The Government of Canada has eliminated all of the federal rebates that were covered under the Visitors' Rebate Program. This includes the rebate for goods exported by non-resident consumers, the rebates for visitors' short-term accommodation in Canada, and the rebates in respect on non-resident convention expenses in Canada.

If a written agreement for a supply to which GST relief applies was entered into prior to 25 September 2006, the relief would generally continue to be available to recognise the fact that contracts may have been negotiated based on the availability of that relief.

Provincial sales taxes

With the exception of Alberta, each of the provinces imposes a provincial retail sales tax (PST) payable on moveable property or goods and certain services at the point of consumption.

Exemptions are available in each of the provinces. However, the nature of the goods or services that are exempt from provincial tax may vary depending on the province. The current general provincial rates are:

British Columbia	7%
Saskatchewan	5%
Manitoba	7%
Ontario	8%
Québec	7.5%
New Brunswick	8%
Nova Scotia	8%
Prince Edward Island	10%
Newfoundland	8%

Note that Newfoundland, Nova Scotia and New Brunswick have harmonised their provincial sales tax with the GST. With a federal GST rate of 5%, as of 1 January 2008 the combined sales tax rate in these provinces is 13%. In these provinces, the federal government administers GST and the provincial tax as a combined tax, referred to as HST (Harmonised Sales Tax). Québec and Prince Edward Island (PEI) levy sales tax on taxable goods (and services where applicable) on the actual cost including GST. Consequently, the combined rate in Québec is 12.875% and 15.50% in Prince Edward Island. All other provinces calculate PST independent of GST. Québec has also harmonised its sales tax (QST) with the GST. The Québec government administers both taxes for Québec businesses.

Although each of the provinces generally requires a vendor to act as an agent for the province to collect and remit the applicable provincial sales taxes, it is the purchaser who is ultimately liable for payment of the tax. Non-residents acquiring goods to be sent out of the province may obtain a refund of provincial sales taxes upon application.

Provincial capital taxes

A number of provinces levy a capital tax on the taxable capital of a corporation doing business in the province through a permanent establishment. Taxable capital will generally include the retained earnings and share capital of a corporation and all loans and advances made to the corporation. The capital tax base is reduced by eligible investments in shares or debt of other corporations. In addition, the provinces generally set thresholds that must be exceeded before taxable capital becomes subject to tax. Capital taxes are levied at rates varying between 0.1% and 0.4% of taxable capital. Currently, most provinces levy a capital tax on trust and loan companies, as well as banks. Note that with effect from 1 April 2001, Alberta eliminated its capital tax. In addition, British Columbia eliminated its capital tax on corporations, other than financial institutions, from 1 September 2002. Ontario announced the elimination of its capital tax for Manufacturing and Processing corporations and Resource corporations with effect from 1 January 2007. For other corporations, the capital tax will remain at 0.225% until it falls to 0.15% on 1 January 2010 and is eliminated by 1 July 2010. Saskatchewan has eliminated its capital tax on corporations, other than financial institutions, as of 1 July 2008. As well, New Brunswick and Nova Scotia have announced the elimination of their capital tax by 1 January 2009 and 1 July 2012 respectively.

5. Taxes on individuals

Territoriality and residence

An individual taxpayer can be considered as either:

- a Canadian resident
- a part-year Canadian resident
- a non-resident

A resident of Canada is taxed on his or her world wide income and capital gains from all sources, with credit given for foreign taxes on foreign-source income. A part-year Canadian resident is taxed on his or her world wide income and capital gains derived from all sources during the period of residence and on Canadian-source income while non-resident. A non-resident is subject to tax on his or her Canadian-source income only.

Residence for income tax purposes

The determination of residence for income tax purposes is a question of fact and it is often difficult to establish when a person has become or has ceased to be resident for Canadian tax purposes. The term 'resident' is not specifically defined in the Income Tax Act. The Canada Revenue Agency has, however, issued an Interpretation Bulletin setting out its administrative position on the question of residence for income tax purposes. Among the factors considered by the Canada Revenue Agency to determine whether an individual has ceased to be resident in Canada are:

- whether the individual returned to Canada on business or pleasure after the date of his or her move from Canada, and if so, the number of days spent and the frequency or regularity of visits
- the individual's motives for the stay outside Canada
- the permanence of the individual's accommodation outside Canada, the whereabouts of his or her ordinary home, and the availability of accommodation inside Canada
- the location of dependants
- the extent of the individual's continued business and personal connections in Canada and the extent to which he or she establishes connections abroad.

An individual staying in Canada for more than 183 days in a calendar year will be deemed a resident of Canada for the entire year. This deemed-residence rule does not apply for a part-year resident. Also, government employees, military personnel and certain individuals working away from Canada are deemed to be resident in Canada. Individuals may be considered residents by more than one country by virtue of the domestic laws of each country. Tax treaties in most cases will deal with the issue of dual residence. The rules can be complicated and specific advice should be sought.

Income tax

Canadian residents are subject to tax on their world wide income, including remuneration for employment, capital gains, interest, dividends, rents, professional fees, pensions, annuities and alimony. The taxable income of a Canadian resident is calculated by subtracting from gross income various deductions allowed by the Income Tax Act. The tax liability is calculated by applying a graduated rate structure to the income so determined and deducting various tax credits that take into consideration marital status and age.

Treatment of the family

Canadian income tax is levied on an individual basis rather than on a family basis. Consequently, the income of each family member is subject to a separate tax calculation. There are income-attribution rules designed to prevent the splitting of income amongst members of a family. For certain loans and gifts, the income is taxed in the hands of the individual making the loan or gift. However, a limited number of tax-planning techniques are available to achieve degrees of income splitting.

Income from employment

All remuneration including most benefits derived from employment is taxable. Taxable benefits include living allowances, housing allowances, vacations, and personal use of employer-owned or employer-leased vehicles. A limited number of benefits are excluded from employment income, such as employer contributions to a registered pension or private health services plans. Note that membership in an employer-paid group sickness or accident insurance plan is a non-taxable benefit, but most employees opt to pay the premiums personally so that any benefits received later are non-taxable.

Foreign personnel

Subject to applicable double taxation treaties, remuneration received for services rendered in Canada is considered Canadian-source employment income. However, most double taxation treaties provide certain exemptions from Canadian tax for some or all employment income earned by foreign personnel.

Foreign pensions

Foreign-source pensions received by Canadian residents are fully taxable. Pension payments made to non-residents from a Canadian pension are subject to withholding tax at 25% or such lower rate as may be stipulated by the applicable double taxation treaty.

Benefits-in-kind

The market-value rental of accommodation or the cost of board and lodging provided by an employer for an employee during a tax year is included in taxable income. There are specific exceptions that apply to certain employees at special work sites or in remote locations.

A prescribed benefit is included in an employee's income if an employer-provided motor car is made available to the employee for personal use. The computation of this benefit is complicated.

A flat-rate expense allowance for personal expenses received by an employee is included in the employee's taxable income.

Expense allowances should be distinguished from expense reimbursements. Expense reimbursements are not taxable. A reasonable per-kilometre allowance paid by an employer for the business use of an employee-owned motor car is considered to be an expense reimbursement. For 2008, the amount paid by an employer generally does not exceed CAD 0.52 per km for the first 5000 kilometres and CAD 0.46 per km for any additional travel, since any excess would not be deductible for the employer.

Expenses of employment

An individual may be entitled to deduct any necessary travelling expenses (excluding travel between home and work) incurred in the performance of his or her employment duties and certain other specified expenses that he or she was obliged to incur under a contract of employment including office rents, non-capital expenses incurred to earn commission income, the cost of supplies consumed, a portion of depreciation or leasing costs of an automobile, and professional or union dues.

If an employer directly reimburses travel expenses, the reimbursement would generally be deductible to the employer and would not be taxable to the employee. Mileage-based payments by an employer to an employee will also be non-taxable to the employee and deductible to the employer if the payments do not exceed prescribed limits. However, if the employee's expenses exceed mileage payments because the payments received are unreasonably low, the employee can deduct travel expenses net of mileage allowances and reimbursements received, provided that the employee is required to travel as stated above.

Specified moving expenses are deductible if certain conditions are met. A direct reimbursement of certain moving expenses is not included in income. Payments that are designed to equalise the employee's net cash flow for differences in the cost of living or other relocation costs will generally give rise to a taxable benefit depending on the nature of the payment. Advice should be sought for specific payments.

Other significant allowable items are:

- home-office expenses, where an office at home is required by the employment
- trade union and professional fees.

If an employee has been authorised to negotiate contracts on behalf of the employer, additional expenses, such as entertainment expenses, can be deducted up to commissions earned. Note that only one-half of entertaining expenses are deductible. There is no standard deduction.

Where an employee is allowed to deduct motoring expenses, a complex set of rules restricts interest, depreciation and lease expenses on more expensive cars. For cars acquired in 2008, the rules generally apply for cars worth more than CAD 30 000 plus applicable federal and provincial sales tax.

For more details, see *Executives on the Move Canada* 2008.

Income from a business

The income of individuals carrying on a business in Canada is calculated in a manner similar to that for corporations. The same deductions are generally available.

Net operating losses

Losses from business operations may be offset against income of any description including capital gains. A net operating loss in excess of current income may be carried back three years and forward for twenty years. The carry-forward period was ten years for losses arising in taxation years ending after 22 March 2004 and before 2006 and seven years for losses arising in taxation years ending before 23 March 2004.

Income from investments

Dividends

A dividend paid to a taxpayer by a corporation resident in Canada on a share of its capital stock is required to be included in the taxpayer's income. An individual taxpayer receiving a dividend from a taxable Canadian corporation must include in investment income an amount called the 'taxable amount' in respect of that dividend. Starting in 2006, there are now two types of dividends: 'eligible' and 'other-than-eligible' dividends, received from taxable Canadian corporations. The taxable amount of eligible dividends is obtained by increasing the actual amount of eligible dividends by 45%. For dividends other than eligible dividends, the taxable amount is obtained by increasing the actual amount of dividends (other than eligible) by 25%. This addition to the actual dividend amount is referred to as the 'gross-up'. Before 2006, the gross-up was 25% for all taxable dividends received. An individual taxpayer will be entitled to claim a credit against federal tax. For eligible dividends received after 2005, the credit is equal to eleven-eighteenths of the 45% 'gross-up' amount. For dividends other than eligible dividends, the credit is equal to two-thirds of the 25% 'gross-up' amount. Before 2006, the credit was equal to two-thirds of the 25% 'gross-up' for all taxable dividends received.

As a general rule, dividends paid out of income that has been taxed at the high corporate tax rate will be considered eligible dividends and dividends paid out of income that has been eligible for the small-business deduction will not be considered eligible dividends.

Dividends received by a resident from a non-resident corporation are fully included in taxable income and are not eligible for special treatment. Where a foreign withholding tax has been applied, the full amount of the dividend (including the foreign tax) is included in income and the individual is entitled to claim a foreign tax credit. However, the maximum credit is limited to 15% of the foreign income. Foreign tax in excess of 15% can generally be treated as a deduction from income.

Non-resident individuals are also taxed on Canadian-source investment income and on gains from the disposal of certain specified Canadian investments described as taxable Canadian property (TCP). The prescribed rate of withholding on investment income is 25%. Gains on the disposal of TCP are taxed at ordinary rates applicable to individuals. Canada has an extensive network of income tax treaties. Under many of these treaties, the general withholding rate on Canadian-source investment income is reduced. Some treaties limit Canada's right to tax gains from the disposal of TCP.

Interest

Interest income received from all sources is included in taxable income. Accrued interest must also be included in income on a yearly basis if interest is not paid at least annually.

Interest paid to a resident is not subject to withholding tax, but when paid to a non-resident is paid after deduction of 25% tax (subject to treaty).

Income from property

Income from property (including rental income), net of related expenses, is included in income. Depreciation may be claimed on rental properties provided that it does not create or increase a rental loss. There is no imputed income from owner-occupation.

Rents paid to non-residents are subject to withholding tax at 25% (or at a lower treaty rate).

Capital gains

Fifty percent of capital gains realised are included in calculating taxable income. Resident individuals are entitled to claim an exemption of CAD 750 000 (EUR 480 525; USD 703 900) to reduce gains arising from the sale of qualified farm property, qualified fishing property or qualified small-business corporation shares. Although the rules are complicated, an exemption is available which effectively exempts capital gains arising from one principal residence. There is no adjustment in calculating capital gains to remove the effect of any inflationary increase. Capital losses can generally be applied only to reduce capital gains; any unused portion can be carried back three years and/or forward indefinitely during the individual's lifetime. Capital losses carried over to the year of death can be claimed against all forms of income, subject to certain restrictions.

Deductions and allowances

Registered Retirement Savings Plans (RRSP)

The RRSP is a tax shelter that allows Canadian individual taxpayers to deduct limited amounts contributed to the plan from their income. The amounts contributed are usually invested in securities that may earn interest, dividends or capital gains, which accumulate in the plan without being subject to tax. Withdrawals are taxed as regular income when amounts are withdrawn from the plan.

For any year, the contribution limit is based on earned income for the prior year multiplied by 18%. If the individual is a member of a pension plan, this amount is reduced by certain pension adjustments. Also, the net amount cannot exceed certain dollar limits for each year. The dollar limit for 2008 is CAD 20 000 (EUR 12 825; USD 18 775). The limit will increase to CAD 21 000 (EUR 13 450; USD 19 700) for 2009, CAD 22 000 (EUR 14 100; USD 20 650) for 2010, and will be indexed after 2010. Since the non-resident withholding tax rate on RRSP withdrawals is 25%, contributions made to an RRSP during Canadian residence and the withdrawal of funds after departure provide a means of reducing the overall Canadian tax cost of a non-permanent posting to Canada.

Child- care expense

The cost of child-care expenses will generally be allowed as a deduction for tax purposes from the income of the parent with the lower net income. The deduction cannot exceed the smaller of the following amounts:

- CAD 10 000 (EUR 6400; USD 9375) per child who is certified by a doctor as having severe and prolonged physical or mental infirmity, and for other children, CAD 7000 (EUR 4475; USD 6575) per child for children under seven, plus CAD 4000 (EUR 2550; USD 3750) per child for children age seven to under 17 years old at the end of the year
- two-thirds of earned income for the year

Child-care expenses include all costs of babysitting and day care. Note that if amounts are paid to an individual, that individual's social insurance number must be quoted for the payment to qualify for a deduction.

Carrying cost of investments

The carrying cost of investments may be deducted by an individual. Carrying charges include:

- interest on funds borrowed to earn income from property
- fees for the management or safe custody of investments
- safety-deposit box charges
- accounting fees for recording investment income
- investment counsel (financial adviser) fees.

Note that many investors invest in properties that produce capital gains rather than income from property such as interest or dividends. If there is a personal element to the venture and there is no reasonable expectation of earning income from property in the future, the interest paid is not deductible regardless of the fact that there will be an eventual income inclusion when capital gains are realised.

In October 2003, the federal government proposed a new 'reasonable expectation of profit' test that will essentially disallow the deduction of certain expenses, including interest on funds borrowed to earn income from property, if there is no expectation of profit, even where there is no personal element to the venture. Under the proposed rules, a taxpayer's loss will be allowed only if the loss is from a source that is a business or property where the taxpayer can establish an expectation of a cumulative profit from the business or investment, measured over the life of that business or investment. Further, the proposals specifically provide that the profit does not include capital gains or losses. Therefore, for purposes of meeting this test, capital gains cannot be included when determining whether there will be cumulative profit from the business or investment. The proposals are undergoing significant consultation and changes to narrow the scope of the proposals are possible. The Department of Finance Canada continues to receive submissions on the draft legislation and intends to address the concerns raised prior to enacting the legislation.

Tax credits

Non-refundable tax credit:

Non-refundable tax credits reduce the amount of taxes owed by an individual. Non-refundable tax credits include a basic personal amount plus amounts for a low-income spouse and certain other low-income dependants. Other credits include:

- an age credit for individuals over 65
- a credit for disabled individuals
- a credit for caregivers
- Canada Pension Plan contributions
- employment insurance (EI) premiums
- tuition fees
- medical expenses
- charitable donations.

The medical-expense credit and the age credit may be reduced based on the individual's net income.

Foreign tax credit

An individual is entitled to a credit for foreign taxes paid on foreign income subject to Canadian tax. The credit is limited to the same proportion of the Canadian tax paid as the foreign-source income is to total world wide income, up to certain limits.

Tax rates

As already mentioned, income tax is levied at both a federal and a provincial level.

Individual tax rates are progressive.

The highest marginal tax rates applicable to individuals resident in Canada for 2008 are as follows:

Table 2

	Regular income	**Eligible Dividends** (1)	**Ineligible Dividends** (2)	**Capital gains**
Province or Territory:	**%**	**%**	**%**	**%**
British Columbia	43.70%	18.47%	31.58%	21.85%
Alberta	39.00%	16.00%	26.46%	19.50%
Saskatchewan	44.00%	20.35%	30.83%	22.00%
Manitoba	46.40%	23.83%	37.40%	23.20%
Ontario	46.41%	23.96%	31.34%	23.21%
Québec	48.22%	29.70%	36.35%	24.11%
New Brunswick	46.95%	23.18%	35.40%	23.48%
Nova Scotia	48.25%	28.35%	33.06%	24.13%
Prince Edward Island	47.37%	24.44%	33.61%	23.69%
Newfoundland	45.00%	28.11%	33.33%	22.50%
Yukon	42.40%	17.23%	30.49%	21.20%
Northwest Territories	43.05%	18.25%	29.65%	21.53%
Nunavut	40.50%	22.24%	28.96%	20.25%
Non-resident	42.92%	----	25.00% (3)	21.46%

Notes

1 As noted above, eligible dividends carry a tax credit of eleven-eighteenths of the 45% gross-up amount.

2 This column reflects the rates on "ineligible" dividends which are grossed up for federal purposes at 25% with a dividend tax credit of two-thirds of the gross-up or 16.67% of the taxable dividend.

3 Dividends paid to a non-resident are subject to a 25% withholding tax, unless a lower withholding tax rate is dictated by a tax treaty with the home country. The withholding

tax rate may be reduced or eliminated under a tax treaty by a direct dividend exemption or a general rate reduction.

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was introduced to deal with what the government saw to be the problem of taxpayers with high gross incomes paying less than the amount considered to be their fair share of taxes. AMT is calculated initially by applying a tax rate to adjusted taxable income and comparing the result to basic federal tax that would otherwise be payable on taxable income computed in a normal way. For 2008, the AMT rate is 15%. If the AMT calculation results in a larger liability than the regular calculation, then the AMT becomes the federal tax for the year. The provinces determine AMT based on the federal amounts or using their own calculation.

In determining adjusted taxable income for purposes of minimum-tax calculations, certain tax-preference items are added back to regular taxable income. These tax-preference items include payments into registered pension or registered retirement savings plans (other than certain transfers), tax-shelter deductions, rental losses and a portion of capital gains. After adding back tax preference items, a general exemption of CAD 40 000 (EUR 25 625; USD 37 550) is allowed as a deduction to arrive at adjusted taxable income.

In many situations, especially when tax-shelter investments have been made, where the low taxes of a particular year represent timing differences only, there is a substantial deduction in early years and taxable income is generated in the future without any related deductions left to be claimed. The AMT provisions recognise this as a potential problem and so the excess of AMT over basic federal tax can be carried forward up to seven years and claimed as a credit to the extent that basic federal tax exceeds AMT.

Compliance and returns

An income tax return must be filed by an individual with an income tax liability by 30 April in respect of the previous calendar year. An extension to 15 June is given for individuals reporting income from a business (taxes remain payable on 30 April). No other extensions are granted to file a return at a later date. Penalties apply if taxes are owed and a return is filed late. Interest is payable on unpaid taxes and penalties. Provincial taxes (except in Québec) are calculated on the federal tax form. Individuals resident in Québec are required to file a separate return. Trust tax returns and the balance of tax owing are due within 90 days of the trust's fiscal year-end.

Payment and collection

Withholding tax tables set out the taxes to be withheld by an employer from employment remuneration (see below). The balance of taxes is due on 30 April of the following year. In some cases, an individual may also be required to make quarterly instalments. An individual is required to make instalment payments if the difference between the individual's total tax liability (federal and provincial) in the current year and in one of the two preceding years exceeds the amount of tax withheld at source by CAD 3000 (EUR 1925; USD 2825). For Québec residents, the federal limit is CAD 1800 (EUR 1150; USD 1700) and the Québec limit is also CAD 1800. Individuals subject to the instalment requirement will be notified of the quarterly payments required by the Canada Revenue Agency. Instalments are due on the 15th day of March, June, September and December.

Employers (corporate and non-corporate)

Employers must withhold income tax, Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums from wages and salaries paid to employees and must make employer CPP and EI contributions. The timing for the remittance of these amounts is based on the size of the employer's average monthly payroll for the year before the preceding year, as follows:

Table 3

Average monthly payroll	Pay day occurs during	Remittance due date
Less than CAD 15 000	Entire month	15th day of following month
CAD 15 000 to CAD 49 999	1st - 15th day of the month 16th day to end of the month	25th day of the same month 10th day of following month
CAD 50 000 or more	1st - 7th day of the month 8th - 14th day of the month 15th - 21st day of the month 22nd day to end of the month	Within three business days of the last day in each period

Note that employers whose average monthly payroll for the year before the preceding year exceeded CAD 15 000 (EUR 9600; USD 14 075) are allowed to elect to base the frequency of current-year remittances on the prior-year information where beneficial. All employers must also file information returns by the end of February for the preceding calendar year. A quarterly remittance is allowed for employers with a perfect compliance record in the previous 12 months and whose average monthly withholding is less than CAD 3000 in the preceding year or in the year before the preceding year. The remittance due date is the 15th day following the end of each quarter (January-March, April-June, July-September, October-December).

Gift and inheritance taxes

Canada does not impose gift or inheritance taxes on the transfer of property with a Canadian *situs*. However, under Canadian income tax law, a taxpayer is deemed to dispose of his property at fair market value at the time of death, which would give rise to a capital gain or a capital loss. Recapture on depreciable property may also arise. If the deceased is a resident of Canada and the assets pass to his or her spouse after death, the deceased's assets are deemed to be disposed of at cost. Gifts of property also create a deemed disposal at fair market value except where a Canadian resident gifts property to his or her spouse, where the proceeds are again equal to cost.

Non-residents are also subject to the deemed disposal rules upon death or on gifts of taxable Canadian property (TCP). The deemed disposal can give rise to taxable capital gains or income gains depending on the property disposed of. The rules governing the tax collections on disposals of TCP are similar for individuals and corporations (see above).

For more details, see *Estate Tax for Non-Residents Canada* 2008.

6. Other taxes

Customs duties

Tariff classification is structured in accordance with GATT. Canada has entered into the NAFTA with the United States and Mexico, as well as separate agreements with Israel, Chile and Costa Rica. These agreements allow certain goods to be imported duty-free or at a lower duty rate provided the goods themselves, the components thereof and their country of origin fall within specified guidelines. If they qualify, a Certificate of Origin is required, which will need to be retained by the importer of record to substantiate the duty-free status of the particular goods or components which were imported.

Excise taxes

Excise taxes are imposed on certain products normally referred to as specified luxury goods. The rate or amount depends on the particular item or class of luxury goods sold or imported. Examples of luxury goods are cigarettes, tobacco, alcoholic beverages and fuels.

Fuel taxes

Gasoline and fuel taxes are imposed under provincial statutes on all gasoline (petrol) that is purchased in a particular province and on all fuel that is received or used in a province. Accordingly, the taxes vary among the provinces.

Municipal real estate taxes

These taxes are assessed and collected by city, county or other local authorities and are based on various rates and value bases. Although rates are generally not subject to appeal, it is possible to appeal the assessed value of a property. These taxes provide for public services, including education, police, fire services, roads and sanitation.

Land transfer taxes

Land transfer tax is imposed on persons who have had land assigned, conveyed or transferred to them. The tax is normally based on the value of consideration paid or payable. Certain conveyances may also be exempt. Because this tax is imposed by provincial statutes, the rates and exemptions available vary from province to province. The City of Toronto also has a land transfer tax.

7. Social security contributions

Introduction

Employers and employees are required to make prescribed minimum contributions to the Canada Pension Plan (the Québec Pension Plan in Québec) and in respect of unemployment insurance (referred to as Employment Insurance or EI). In some situations, these taxes can be assessed whether or not the employee qualifies for benefits under plans. The employee may claim a non-refundable tax credit of approximately 24% of the contribution when calculating his income tax liability (rate varies by province/territory). A number of bilateral agreements have been entered into with other countries in order to prevent double social security taxation of Canadian residents employed abroad and nationals of those other countries working in Canada (see Appendix).

Canada Pension Plan contribution

The Canada Pension Plan is a government-mandated programme designed to provide retirement, survivor and disability payments to employees and self-employed individuals. The plan is jointly funded by employer and employee contributions, at a percentage of salaries or earnings up to a maximum wage amount, which is set annually. For the year 2008, maximum employer and employee contributions are CAD 2049.30 (EUR 1313.00; USD 1923.30) each, while maximum pensionable earnings are CAD 44 900 (EUR 28 775; USD 42 150). For the year 2008, the maximum annual self-employment contribution is CAD 4098.60 (EUR 2625.95; USD 3846.65).

Employment Insurance (EI) Plan contributions

With limited exceptions, every Canadian employer and employee is governed by federal unemployment insurance legislation (referred to as Employment Insurance or EI). For 2008, employees are required to make contributions at the rate of 1.73% on earnings, up to an annual maximum of CAD 711.03 (EUR 455.55; USD 667.32). Employer contributions are generally calculated at 1.4 times the employee premium.

Health care costs

There is a government-operated medical and hospital insurance plan (excluding dental expenses) in each province. The coverage and costs borne by employers and employees varies from province to province.

8. BDO *Dunwoody* LLP

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BDO Dunwoody LLP has 95 other offices, situated throughout Canada.

Double taxation agreements

Income and capital tax treaties

Canada has income and capital tax treaties with the following countries and territories:

Algeria	Indonesia	Peru
Argentina	Ireland	Philippines
Armenia	Israel	Poland
Australia	Italy	Portugal
Austria	Ivory Coast	Romania
Azerbaijan	Jamaica	Russia
Bangladesh	Japan	Senegal
Barbados	Jordan	Singapore
Belgium	Kazakhstan	Slovakia
Brazil	Kenya	Slovenia
Bulgaria	Korea, Republic of	South Africa
Cameroon	Kuwait	Spain
Chile	Kyrgyzstan	Sri Lanka
China [1]	Latvia	Sweden
Croatia	Lithuania	Switzerland
Cyprus	Luxembourg	Tanzania
Czech Republic	Malaysia	Thailand
Denmark	Malta	Trinidad & Tobago
Dominican Republic	Mexico	Tunisia
Ecuador	Moldova	Ukraine
Egypt	Mongolia	United Arab Emirates
Estonia	Morocco	United Kingdom
Finland	Netherlands	United States
France	New Zealand	Uzbekistan
Germany	Nigeria	Venezuela
Guyana	Norway	Vietnam
Hungary	Oman	Zambia
Iceland	Pakistan	Zimbabwe
India	Papua New Guinea	

(1) This Convention does not apply to Hong Kong

There is a separate income and capital tax treaty between the province of Québec and France.

Estate tax treaties

Canada has no estate or gift tax treaties.

Social security treaties

Canada also has social security agreements with several countries, as follows:

Antigua and Barbuda	Hungary	Norway
Australia	Iceland	Philippines
Austria	Ireland	Poland [1]
Barbados	Israel	Portugal
Belgium	Italy	St Kitts and Nevis
Chile	Jamaica	St Lucia
Croatia	Japan	St Vincent and the Grenadines
Cyprus	Jersey	Slovakia
Czech Republic	Korea	Slovenia
Denmark	Latvia	Spain

Dominica	Lithuania	Sweden
Estonia	Luxembourg	Switzerland
Finland	Malta	Trinidad & Tobago
France	Mexico	Turkey
Germany	Morocco[1]	United Kingdom
Greece	Netherlands	United States
Grenada	New Zealand	Uruguay
Guernsey		

Agreements have also been signed with Morocco and Poland, but these are not yet in force.

Québec, which has its own parallel, separate social security system, has in its own right concluded social security agreements with:

Austria	Germany	The Philippines
Barbados	Greece	Portugal
Chile	Hungary	St Lucia
Croatia	Ireland	Slovakia
Cyprus	Italy	Slovenia
Czech Republic	Jamaica	Sweden
Denmark	Luxembourg	Switzerland
Dominica	Malta	Turkey
Finland	Netherlands	United States
France	Norway	Uruguay

An agreement has also been signed with Morocco, but this is not yet in force.

BDO Member Firm Offices

BDO Member Firms have offices in the following countries and territories:

Angola	Hong Kong	Peru
Argentina	Hungary	Philippines
Australia	India	Poland
Austria	Indonesia	Portugal
Bahamas	Ireland	Qatar
Bahrain	Isle of Man	Reunion
Belgium	Israel	Romania
Bolivia	Italy	Russia
Botswana	Jamaica	Saudi Arabia
Brazil	Japan	Senegal
British Virgin Islands	Jersey	Serbia
Bulgaria	Jordan	Seychelles
Canada	Kazakhstan	Singapore
Cape Verde	Korea	Slovakia
Cayman Islands	Kuwait	Slovenia
Chile	Latvia	South Africa
China (PRC)	Lebanon	Spain
Colombia	Liechtenstein	Sri Lanka
Comoros	Lithuania	Suriname
Croatia	Luxembourg	Sweden
Cyprus	Madagascar	Switzerland
Czech Republic	Malaysia	Taiwan
Denmark	Malta	Thailand
Dominican Republic	Mauritius	Tunisia
Ecuador	Mexico	Turkey
Egypt	Morocco	Turkmenistan
El Salvador	Mozambique	Ukraine
Estonia	Namibia	United Arab Emirates
Fiji	Netherlands	United Kingdom
Finland	Netherlands Antilles	United States of America
France	New Zealand	Uruguay
Germany	Nigeria	Vanuatu
Gibraltar	Norway	Venezuela
Greece	Oman	Vietnam
Guatemala	Pakistan	Zambia
Guernsey	Paraguay	Zimbabwe

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