

Doing business in **Canada**

If you are planning on doing business in Canada, knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track.



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Foreword

Grant Thornton LLP is a leading Canadian accounting and advisory firm providing audit, tax and advisory services to private and public organizations. Together with the Quebec firm Raymond Chabot Grant Thornton LLP, Grant Thornton in Canada has more than 3,100 people in offices across Canada. Grant Thornton in Canada is a member firm within Grant Thornton International Ltd (Grant Thornton International) and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.

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We're committed to being proactive leaders in the ever-changing economy; looking outward to remain focused on our clients' needs. We take the time to get to know our clients and they can count on us to ask the difficult questions for their benefit. Our thinking is directed to the future, because the big decisions our clients face now won't change what happened in the past. Our clients' success is defined by what they can accomplish today, and in the months and years to come.

We believe in keeping the needs of our clients, the demands of the marketplace and what's good for the communities in which we live and work, front and foremost in our business planning, in our service delivery and in our daily work. Accessible, independent, knowledgeable and experienced, our clients tell us that it's how we see the world that makes the difference.

We've prepared this guide to assist those interested in doing business in Canada. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Canada and to obtain appropriate accounting and legal advice. If you require any further information, please do not hesitate to contact our International Business Centres in Canada. Contact information is located at the end of this guide.

This guide contains only brief notes and includes legislation in force as of December 2009.

Country Profile

Summary

Canada is rapidly earning a name for itself on the global stage. Between 2001 and 2006, Canada's population grew by 5.4%—a rate that was faster than any other G8 country. The country's growth is largely attributed to an influx of new immigrants—in 2008, the country welcomed a record-high 247,202 permanent residents. Canada is also the G7's top performer in GDP growth due to its well-diversified economy, wealth of natural resources and healthy financial services sector.

Geography and population

Geographically, Canada is the second largest country in the world, with a total area of 9,984,670 square kilometres. The country's vast coastline, which includes the Arctic coast, is the longest in the world, measuring 243,042 kilometres.

Despite the country's size, the majority of Canada's 33 million residents live along the Canada/US border and approximately 45% reside in the country's six largest census metropolitan areas: Toronto, Montreal, Vancouver, Ottawa-Gatineau, Calgary and Edmonton.

Political and legal system

Canada has a written constitution that encompasses a federation of 10 provinces (New Brunswick, Nova Scotia, Prince Edward Island, Newfoundland and Labrador, Quebec, Ontario, Saskatchewan, Manitoba, Alberta and British Columbia) and three territories (Yukon, Nunavut, Northwest Territories).

The Canadian legal environment is derived from British common law for all provinces and territories, except Quebec where the legal structure is derived from the French Civil Code. A system of courts exists at both the federal and provincial levels.

Legislative power is vested in a parliamentary system with representatives elected to federal and provincial governments. In most situations, areas of federal and provincial jurisdiction are mutually exclusive. However, if a conflict exists in areas where activities are regulated by both levels of government, the federal legislation prevails. There is also a system of municipal governments, which may set and enforce local bylaws, and levy local taxes and fees.

Federal legislation pertains to

- incorporation of federal companies,
- regulating inter-provincial and international trade,
- general trade regulation throughout Canada including competition law, direct and indirect taxation,
- banking, bills of exchange,
- bankruptcy and insolvency,
- patents and copyrights, and
- inter-provincial undertakings in transportation and communications.

Provincial legislation pertains to

- direct taxation,
- resources,
- education,
- healthcare,
- civil law,
- licensing for revenue purposes,
- regulating trade and commerce within the province, and
- incorporation of provincial companies.

Language

English and French are Canada's two official languages and 98% of Canadians speak one or both of them. About 80% of Canadians consider these languages to be their mother tongue, with 58% reporting in the 2006 Census that English was the language they learned to speak first and 22% reporting French. Chinese languages, such as Mandarin and Cantonese, are considered to be the third largest dialect spoken in Canada, with 3% of the population reporting them to be their mother tongue.

Business hours/time zone

Because of its vast size, Canada spans six time zones: Newfoundland Standard Time, Atlantic Standard Time, Eastern Standard Time, Central Standard Time, Mountain Standard Time and Pacific Standard Time. From the second Sunday of March to the first Sunday of November, all provinces move their clocks ahead one hour to observe Daylight Savings Time, with the exception of Saskatchewan.

Typical business hours are Monday-Friday, 35-40 hours a week, with a minimum of two weeks of vacation time per year. The retail sector is significantly different, with most stores and malls open on weekday evenings as well as weekends.

Public holidays

Holidays in Canada vary from province to province, however, there are four federal holidays that are celebrated across the country:

- New Year's Day (January 1)
- Good Friday (Friday before Easter)
- Canada Day (July 1)
- Labour Day (First Monday in September)
- Christmas Day (December 25)

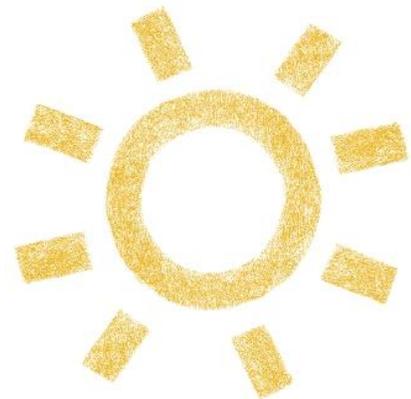
There are also a number of holidays for federally regulated employees—primarily government and bank employees. Many provinces adopt these as statutory holidays as well:

- Easter Monday (Monday following Easter)
- Victoria Day (Monday on or before May 24)
- Thanksgiving (Second Monday in October)
- Boxing Day (December 26)

While holidays vary from province to province, there are three additional days that are observed by the majority of provinces, albeit under different names:

- Family Day (Third Monday in February)
- August Civic Holiday (First Monday in August)
- Remembrance Day (November 11)

If you're planning on doing business in Canada, it's advisable to research the names and dates of holidays in your specific province of business.



Economy

Canada's economy boasts a number of characteristics that foster business growth, including a prudent fiscal policy, low inflation, interest and unemployment rates, a highly-educated population and a business-friendly corporate tax framework.

In 2006-07, Canada reported its 11th consecutive balanced budget and 10th consecutive budget surplus. While stimulus spending in response to the 2008 economic downturn curbed that streak, Canada's economy continues to remain sound. The World Economic Forum's 2008-2009 Global Competitiveness Report ranked Canada's banking system as the best in the world.

Economic growth

Canada's fiscal balance sheet has greatly improved since the 1990s and, as a result, it has excellent long-term growth prospects. Moody's Investors Services has awarded the country with a AAA international credit rating—the highest possible rating—since 2002. The country also celebrates the lowest debt-to-GDP ratio in the G7, and the Economic Intelligence Unit projects Canada's inflation rate of 2.1% to remain the same for the next five years.

Employment Levels

Canada has achieved exceptionally strong employment growth, with a 67.5% labour force participation rate—the highest in Canada's history. Before the global recession hit, Canada boasted an unemployment rate of 6.1% in 2007—the lowest in 30 years—although that number has jumped to 8.6% in 2009 in response to the economic crisis. Canadian labour costs are also considered to be the lowest in the G7.

Living standards

Thanks to the educational opportunities and quality of universal healthcare awarded to Canadians, they enjoy one of the highest living standards in the world. Canada is one of approximately a dozen countries that have a national income per capita of over \$20,000. In 2008, that number was \$31,639 US and ranked eighth out of 17 countries, according to the Conference Board of Canada. The country has also been ranked near the top of the United Nations' human development index consistently since 1994.

Cost of living

When compared to other developed nations, Canada's cost of living is noticeably low. Certain expenses, such as real estate, food, recreation and gasoline are significantly lower when compared to countries in Europe, for example. Power is also cheaper, but since more of it is used to make it through a Canadian winter, it can end up costing more. Car insurance is also more expensive in Canada.

Regulatory environment

Summary

Canada's regulatory framework is a performance-based model that's designed to protect the public in such areas as health, safety and security, the environment, and social and economic well-being.

Restrictions on foreign ownership

Canada is very receptive to foreign investment, and no exchange controls exist.

Investments made in Canada by foreigners are governed under the *Investment Canada Act*. This act focuses on the establishment of new Canadian businesses and the acquisition of control of operating Canadian businesses by non-Canadian interests.

For investors who reside in member states of the World Trade Organization and the North American Free Trade Agreement, there is no constraint on trade when it involves investments of less than \$168 million. Investments above this amount require notification to government authorities. However, the review is fairly minimal since it's more designed for the government to be kept informed than to restrict investment, which is usually seen as a benefit to Canada.

Special rules exist for some businesses, such as financial services, publishing, broadcasting and other cultural areas, transportation and certain mineral production.

Competition rules/consumer protection

The Competition Act is a federal law that governs the majority of business conduct in Canada. In March 2009, it was substantially amended to deal with two types of practices: criminal and quasi-judicial.

Criminal offences include

- conspiracies (as well as the implementation in Canada of collusive arrangements entered into outside of Canada),
- bid-rigging,
- multi-level marketing, and
- certain misleading advertising and telemarketing practices.

Quasi-judicial practices are reviewed by a body known as the “Competition Tribunal” which deals with

- mergers,
- strategic alliances,
- abuse of dominant position,
- price maintenance,
- tied selling,
- refusal to deal,
- exclusive dealing,
- market restriction,
- delivered pricing, and
- certain misleading advertising practices.

Companies that operate in Canada are also required to abide by the *Consumer Packaging and Labelling Act*, a criminal statute that ensures the packaging, labelling, sale, importation and advertising of products in Canada is clear and truthful. The *Textile Labelling Act* is a similar statute that governs textile articles, and the *Precious Metals Marking Act* refers to articles containing precious metals such as gold, silver, platinum or palladium.

Import and export controls

The flow of goods in and out of Canada is governed by the *Export and Import Permits Act* (EIPA), and overseen by the Export and Import Controls Bureau. The Minister of International Trade provides policy direction in most areas involving market access and trade policy. Imports that are controlled in Canada include textiles and clothing, agricultural products, steel products, and weapons and munitions.

Canada also benefits from the North American Free Trade Agreement. The agreement has been in force since 1994 and it—in addition to the General Agreement on Trades and Tariffs (GATT)—governs investment in and trade relations between Canada, the United States and Mexico. An overview of NAFTA can be read at www.dfait-maeci.gc.ca.

Use of land

Canada's land use spans a variety of sectors, including

- forestry (namely active forest harvesting or potential forest harvesting),
- recreation and conservation (parks, wildlife reserves and sanctuaries),
- agriculture (improved and unimproved farmland),
- energy development,
- hunting and trapping,
- mining,
- transportation,
- manufacturing, and
- urban activities.

Exchange control

The Canadian government encourages foreign investment and, as a result, does not place exchange controls on money earned in Canada. Non-residents do, however, have to pay withholding taxes when receiving payment in the form of dividends, interest, salaries, bonuses, commissions, or other amounts for services rendered.

Government incentives

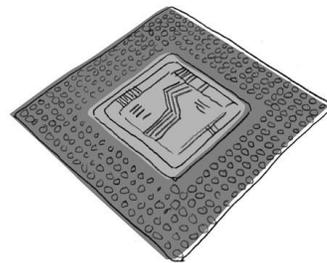
The Canadian federal and provincial governments offer the manufacturing sector a wide range of financial assistance programs to actively promote Canada's industrial development. The programs are designed to favour the establishment, development and modernization of industries.

Eligibility for most direct incentive programs is often limited to companies incorporated under federal or provincial laws. Also, government assistance is often only available when it can be demonstrated that traditional private sector financing cannot be obtained. Therefore, projects should be industry-specific or designed to be implemented in areas designated as eligible for assistance.

The Export Development Corporation (EDC), a federal Crown corporation, has programs to encourage domestic producers to expand beyond Canadian borders. Most of its programs relate to guarantees of foreign receivables.

Financial incentives are available to manufacturers, exporters or potential exporters for activities that include

- establishing, expanding or modernizing industries in targeted regions,
- technology research and innovation,
- developing export markets,
- promoting participation in tenders for international projects,
- providing export credit insurance and financing, and
- manpower retraining and development.



Finance

Summary

Despite the global economic downturn, Canada's financial system remains in good shape. Thanks to prudent lending practices and government regulation, credit continues to flow—although it was significantly tighter in 2009—and Canada's banks are significantly healthier than others around the world.

Banking system

Canada's financial system is made up of financial institutions (such as banks, non-bank lenders and credit unions), the financial markets and payments systems. The country's six large domestic banks—Bank of Montreal, National Bank of Canada, Royal Bank of Canada, Bank of Nova Scotia, Toronto Dominion Bank and Canadian Imperial Bank of Commerce—dominate the financial services sector, holding 90% of the country's bank assets. Canada also has three other domestic banks, 50 active foreign bank subsidiaries and 37 foreign bank representative offices.

Due to stringent regulation, Canada's banks tend to be much more prudent in their lending practices than the global average. As a result, they are well-capitalized and have historically exceeded the Bank for International Settlements' norms by wide margins.

Canada's central bank, The Bank of Canada (BoC) is partly responsible for these prudent lending practices. Its mandate is to promote "the economic and financial welfare of Canada," according to the *Bank of Canada Act*, and it does so by injecting liquidity into the system, providing policy advice to the federal government and overseeing the way in which funds flow from one account and financial institution to another (also known as clearing and settlement systems). The BoC offers banking services to those systems and their participants, and collaborates with other domestic and international bodies to ensure global financial stability.

Capital markets

The Bank of Canada is also involved in the country's capital markets—those that involve money, bonds, equities, derivatives and foreign exchange. It's responsible for marketing and managing government securities, and setting the target for the overnight interest rate.

Canada's three specialized securities trading markets include the Toronto Stock Exchange (TSX), the Montreal Exchange, which solely trades in derivatives, and the TSX Venture Exchange, which trades shares of mining companies and other junior or speculative issues.

Canadian capital markets are unique in the sense that when compared to the rest of the world, the capitalization of Canadian public companies is high relative to GDP. At the same time, Canadian issuers constitute a small fraction of total world market capitalization. Canada's public equity markets consist of more small issuers than large issuers and a good portion of the markets are made up of micro-cap issuers.

Many of Canada's largest issuers are also listed on major US exchanges and trade in various US and foreign markets. A significant number of Canada's largest non-financial companies have controlling shareholders, or shareholders with voting interests in excess of 10%, and many operate in a number of key sectors including mining, oil and gas, and financial services.

Other sources of finance

Small, medium and large enterprises have three options of funding in Canada: debt financing; equity financing and government financing.

- Debt financing is short- or long-term funds that are borrowed from a financial institution such as a bank, trust, credit union or loan company.
- Equity financing involves borrowing money from private investors or filing a prospectus to offer securities to the public. This type of financing is regulated by provincial governments in Canada.
- Government financing involves funds that are made available by Canada's federal and provincial governments.

Imports

Summary

Canadian imports reached a record high in July 2008, but dramatically decreased as a result of the global economic downturn. Import volumes picked up again in April 2009 and sat at approximately \$31.2 billion in August 2009.

Import restrictions

Because the Canadian government seeks to support importers and industry in general, virtually any product may be imported into Canada, however, there are a few restrictions. Certain products—hate literature, for example—are prohibited. A full list of prohibited products is available under annex VII of the *Customs Tariff*.

Other products require special permits, as is outlined in the *Export and Import Permits Act*. These products include

- textiles and clothing,
- steel,
- wheat and barley,
- supply-managed farm products, and
- firearms, among others.

Most imported goods are subject to customs duties and the federal Goods and Services Tax (GST) and others may be subject to provincial regulations. A Canadian customs broker or freight forwarder can be a helpful resource in determining the import rules and regulations in a specific market.

Customs duties

Canada's *Customs Tariff*, which determines the rate of customs duties in Canada, is based on the World Customs Organization's (WCO) Harmonized Commodity Description and Coding System (HS). This standardized system is adopted by almost 200 countries and 98% of the world's trade activity.

Essentially, customs duty rates are determined according to the country of origin of the goods and whether the country falls under a most-favoured-nation status.

Under NAFTA, tariffs were eliminated from all goods traded between Canada, the US and Mexico with the exception of those originating from the agricultural, dairy, poultry, egg and sugar sectors. Excise duties are applied to alcohol, beer, tobacco and related products.

Special anti-dumping duties exist for imported goods sold in Canada at prices below those in the home market. Goods sold in Canada that are subsidized by the exporting country may be subject to a counter-veiling duty. These duties are imposed over and above the normal customs tariffs.

Businesses who are interested in learning more about tariffs, rates of duty, required permits and the application of the *Customs Tariff* are encouraged to contact the Border Information Service at (800) 461-9999 in Canada, or (204) 983-3500 or (506) 636-5064 from outside of Canada.



Business entities

Summary

Canadian businesses typically take the form of one of four structures:

- sole proprietorship,
- partnership,
- corporation, or
- cooperative.

These are usually governed by provincial law with the exception of corporations, which also may be governed by federal law.

Structure of business organizations

In addition to the four business structures mentioned above, business operations in Canada can also take the form of joint ventures, co-ownerships, trusts, contractual assignments, or foreign business corporations. The tax implications vary significantly with each form of business organization, and therefore professional advice should be obtained before setting up and commencing a business.

Business entities

Sole Proprietorship

Sole proprietorships provide a simple arrangement for carrying on business with few legal formalities. A sole proprietorship exists if an individual is the sole business owner and there is no other form of business organization. All of the business' benefits and obligations incurred accrue to the sole proprietor. All income losses accrue to the individual and are taxed at tax rates applicable to individuals. Under a sole proprietorship, there is no limited liability.

Partnership

In Canada, there are two types of partnerships:

- 1 **General partnership:** In these partnerships, a relationship must exist between persons carrying on a business with a view to profit. General partnerships carry on business under a firm name. However, the business is carried on by the partners and is not a separate legal entity; each partner is jointly liable with the other partners to the full extent of the partner's personal assets.

- Limited partnerships:** These must consist of one or more general partners and one or more limited partners; one person can be both a general and limited partner. Limited partners share profits in the limited partnership in proportion to the contribution made by the partner. However, as the name implies, a limited partner has limited liability and usually has priority over a general partner upon liquidation of the partnership.

Corporation

Corporations are the most common form of business organization. Although corporations may be created under either federal or provincial law, incorporation under provincial legislation is more common (under federal legislation, the public has greater access to financial information, which must be filed under federal statutes).

All corporations may conduct business in any province. However, they must report income earned by province where they carry on business through a permanent establishment. Certain provinces require separate registration of a corporation incorporated outside their boundaries, whether provincial or federal.

The share capital created by articles requires no minimum sum or ceiling. Both federal and provincial corporations (with some exceptions) require that the board of directors have a majority of resident Canadians.

A Canadian corporation may be incorporated under the federal *Canada Business Corporations Act* (CBCA) or provincial equivalent. Federal corporations are entitled to carry on business under their corporate name throughout Canada; provincial corporations are normally required to obtain extra-provincial licenses or become registered in each province, though some exceptions apply.

Branch operations of foreign corporations are required to register or be licensed as extra-provincial corporations in each province in which it carries on business.

Cooperative

A cooperative is a type of corporation and is governed by similar laws, and is generally described as a business that is organized, owned and democratically controlled by the people who use its products and services, and whose earnings are distributed on the basis of use of the cooperative rather than level of investment. A cooperative is distinct in that there is a linkage between the ownership and the users of the business. Cooperatives, like investor-owned corporations, have elected boards of directors and appointed officers.

Other types of business structures

Joint ventures

A joint venture is similar to a partnership in that it involves an arrangement where two or more people contribute goods, services or capital to a common commercial enterprise. The main difference is that it's often considered to be more informal and temporary. The co-venturers in a joint venture do not act as agents for each other. They each receive a share of gross profits but they share only in the expenses related to the specific project, so the business is not considered a "business in common." Joint ventures also have different tax rules than partnerships in that they are not subject to at-risk rules, and co-

venturers do not have to calculate the Capital Cost Allowance at the partnership level. Instead, each co-venturer may claim as little or as much as they'd like. Joint ventures also don't have to file information returns.

Trusts

A trust is a financial arrangement that typically involves three parties:

- 1 The person who sets it up (the "Settlor").
- 2 The person who manages it (the "Trustee").
- 3 The person who benefits from it (the "Beneficiary").

The trust document outlines the terms and conditions of the arrangement—namely, what assets are to be held, by whom, for how long, and for whose benefit.

There are two types of trusts—inter-vivos trusts and testamentary trusts. An inter-vivos trust is established while the settlor is alive. It can be revocable, where the settlor retains control over the trust's assets, or it can be irrevocable. In general, taxes are either paid by the trust or the trust income and/or capital gains are allocated to the beneficiaries of the trust and taxed in their hands. However, where the trust is revocable, the settlor is required to report and pay tax on the income earned by the trust. There is also another special rule whereby most trusts are required to report and pay tax on their unrealized capital gains every 21 years.

Testamentary trusts are created after the settlor dies. The conditions of the trust are outlined in a will or provincial/territorial court order. Testamentary trusts are taxed more favourably than inter-vivos trusts.

Different types of corporations

Different types of corporations have different tax implications, and entitle companies to different rates and deductions.

Canadian-controlled private corporations (CCPC)

In general, a CCPC is a private corporation incorporated in Canada (or resident in Canada from June 18, 1971, to the end of the tax year) other than a corporation controlled directly or indirectly by one or more non-resident persons or by one or more public corporations.

Other Canadian private corporations

These are generally corporations resident in Canada that are controlled directly or indirectly by non-residents. They can't be a public corporation; controlled by one or more public corporations; or controlled by one or more federal Crown corporations.

Canadian public corporations

A public corporation is resident in Canada and either has a class of shares listed on a Canadian stock exchange or has elected to be a public corporation under Canada's Income Tax Regulations. A

Canadian subsidiary of a public corporation does not count as a Canadian public corporation (provided no shares of the subsidiary are publicly traded).

Other Canadian corporations

This type of corporations do not fit the above definitions and can include such entities as non-resident owned investment corporations, credit unions, cooperative corporations, general insurers and Crown corporations.

For more information on establishing a corporation in Canada, visit the Canada Revenue Agency website at www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/menu-eng.html.

Filing requirements

Individual business owners who operate sole proprietorships or partnerships are required to report their income on Canada's T1 General tax return. All corporations are required to file a tax return every year, even if there is no tax payable. This includes incorporated charities, non-profit organizations, tax-exempt organizations and inactive corporations. These businesses must fill out a T2 Corporation Income Tax Return, an eight-page base form plus any additional schedules that may be required, unless they are eligible to fill out the time-saving two-page T2 Short Return. For taxation years ending after 2009, Canadian-resident corporations will be required to electronically file their corporate tax return with the CRA provided annual gross revenue for a tax-year is over \$1 million. Exemptions from this mandatory e-filing requirement will apply to non-resident corporations that are required to file T2 returns, insurance corporations, and corporations filing in a functional currency.

More information on filing requirements is available at <http://www.cra-arc.gc.ca/tx/bsnss/menu-eng.html>.

Dissolution

To legally terminate a company, approval is required under the *Canada Business Corporations Act* (CBCA). Typically, approval is granted if the dissolution occurs under one of three circumstances:

- 1 The corporation has not issued shares.
- 2 The corporation has issued shares but has no property and no liabilities, or has distributed all of its properties and discharged all of its liabilities.
- 3 The corporation still has property and/or liabilities which need to be liquidated.

In all of the above situations, the directors or shareholders must sign a resolution that authorizes the dissolution. Then the company must submit either *Form 17: Articles of Dissolution*, or *Form 19: Statement of Intent to Dissolve* to Corporations Canada. If approved, the company will then receive a Certificate of Dissolution or a Certificate of Intent to Dissolve, depending on the scenario. The business is then required to cease activity immediately and inform all creditors.

More information on dissolution is available at http://corporationscanada.ic.gc.ca/eic/site/cd-dgc.nsf/eng/h_cs03935.html#whatis.

Foreign company branches

A Canadian branch office is an opportunity for foreign corporations to offset losses incurred at that branch against taxable profits earned by the corporation as a whole—a popular tool used by start-ups or other reorganizations where losses are expected. The amount of these offsets, however, relies largely on the original country's tax laws.

Because the branch office is not an entity that is legally distinct from the foreign corporation, the foreign company is still responsible for all debts, liabilities and obligations associated with the Canadian branch. The foreign company would also be subject to Canadian provincial and federal laws.



Labour

Summary

Labour and employment issues are normally governed by provincial laws in Canada. Each province enacts comprehensive minimum standards as the basis for all labour and employment relations. These standards pertain to payment of wages, minimum wage levels, record keeping rules, hours of work, overtime, public paid holidays, vacation pay, equal pay for equal work, benefits legislation, pregnancy/parental leave, and termination/common law notice/severance pay, etc.

Trades unions are generally free to organize employees, with limited rights of the employer to interfere or oppose such activity.

Wages

When determining what to pay employees in Canada, it's best to take into consideration your region, sector and the going rate of similar positions. It should also be noted that every province in Canada has a defined minimum wage:

Hourly minimum pay for adults

Province	Wage
NL	\$9.50 (moving to \$10.00 on July 1, 2010)
Ontario	\$9.50 (moving to \$10.25 on March 1, 2010)
Nova Scotia	\$8.60
Quebec	\$9.00
PEI	\$8.40
Manitoba	\$9.00
New Brunswick	\$8.25
Saskatchewan	\$9.25
British Columbia	\$8.00
Alberta	\$8.80
NWT	\$8.25
Nunavut	\$10.00
Yukon	\$8.89

While the above chart serves as a rather stringent guideline for the minimum wage of a typical unskilled position in Canada, it should be noted that millions of Canadian workers are not covered by these laws. Self-employed workers, independent contractors, students in training programs and salespeople paid exclusively by commission are almost never covered in any province or territory.

Social security

Canada's social security program is shouldered by both the federal and provincial governments. The Department of Human Resources and Social Development, a federal body, is responsible for Canada's two-tiered retirement income system—the Old Age Security (OAS) program and the Canada Pension Plan (CPP). The Canada Revenue Agency is responsible for collecting money from tax payers to fund the CPP.

The federal government is also responsible for the Employment Insurance program, which is also subsidized by taxpayers and offers security to Canadians who are involuntarily, and temporarily, out of work. Canadians with children receive the Canada Child Tax Benefit.

Programs such as Workers' Compensation—which offers security to workers and their dependents in situations where an injury or death occurs on the job—are offered by the provincial and territorial governments. These governments may also supplement the benefits paid by the federal Old Age Security program.

Pensions

While old age benefits are provided by federal, provincial and territorial governments, Canadians also have the option of saving for their retirement through a Registered Retirement Savings Plan (RRSP)—a vehicle that allows them to put aside money income tax free until it is withdrawn from the plan (generally during retirement, although amounts can be withdrawn at any time). RRSP's must be converted into a Registered Retirement Income Fund (RRIF) or annuity by the end of the year in which the beneficiary of the plan turns 71. Many employers also help build an individual's retirement income by providing private pension plans.

Fringe benefits

Holiday pay

Statutory holidays differ from province to province, and so do the rules surrounding them. Typically, employees have the option of receiving the day off with pay (this can be an average day's pay, although different provinces have different means of calculating this). If they are required to work that day, they can be compensated by receiving a day off in lieu or they can work at a wage that is one-and-a-half times the amount of their regular wage.

Profit sharing

Profit sharing is an increasingly popular, optional incentive offered by Canadian employers. At the end of each quarter, or the fiscal year, employees receive a percentage of the company's profits based on a number of factors—employee performance, company profits, stock prices, or department performance, to name a few.

Workers' compensation

Canada's workers' compensation programs seek to protect individuals from injuries, deaths or illnesses that occur while they're on the job. The programs differ from province to province.

Healthcare

Canadians enjoy a publicly-funded healthcare system which differs from province-to-province. In most provinces, dental, drug and vision costs are not covered, but are usually supplemented through an employer's benefit insurance program.

Employment protection legislation

Canada's provincial, territorial and federal governments take great care to ensure the country's workers are treated fairly by the private sector. Canada's minimum standards of employment are outlined at http://www.hrsdc.gc.ca/eng/lp/spila/cli/eslc/01Employment_Standards_Legislation_in_Canada.shtml.

Unions

In 2008, approximately 30% of Canadian workers were union members. Employees in the public sector are much more likely to be unionized than those in the private sector—71% compared to 16%. This is because unions tend to negotiate by workplace rather than industry in Canada. National unions represent 66.9% of membership while international unions (those headquartered outside of Canada) represent 28.1%.

Personnel limitations—foreigners/nationals

Generally, a person must either obtain permanent resident status (by satisfying immigration requirements) or obtain a valid work permit in order to work in Canada.

Most foreign nationals who want to work in Canada for a temporary period require a work permit. Normally, these are issued for one year, though longer terms can be obtained in specific circumstances. Renewals are possible, though normally for no more than five years maximum.

An application is required to extend a stay. Some specific rules and exceptions also apply.

People entering Canada for a limited period to engage in employment are considered visitors and may be required to obtain a visa before entering Canada. Please contact your local Canadian consulate, high commission or embassy for specific requirements, or visit the Citizenship and Immigration Canada Web site at (<http://www.cic.gc.ca/>).

Financial reporting and audit

Summary

Currently, Canada's system of corporate accounting standards is unique and separate from that of the rest of the world. In an effort to increase the country's share of the global capital market, Canadian publicly accountable entities will be adopting the International Financial Reporting Standards (IFRS) system in 2011. This system, which is used by 100 countries across the world, including most of Europe, is quickly becoming the accepted, standardized form of accounting. Canadian privately held businesses have the option to adopt either IFRS or the new Generally Accepted Accounting Principles for Private Enterprises (PEGAAP), which is based on the current GAAP standards.

Reporting standards for corporations derive from the Canadian Institute of Chartered Accountants (CICA) and the provincial securities commissions. Each province and territory has its own securities commission responsible for ensuring that information in public offerings is complete and not misleading.

Various industry bodies (e.g., real estate and educational institutions) have established industry guidelines and standards that may be specific to their industry.

Audit Requirements

Most incorporation acts call for a company to prepare audited financial statements annually. However, the requirement for an audit can be removed, if desired, by the board of directors in some circumstances. Audits are required for public companies listed on any of the stock exchanges in Canada and for certain financial services companies, whether public or not.

Taxation in Canada

Introduction

Both the federal and provincial governments levy a tax on the income of individuals and corporations. At present, the federal government collects the personal and corporate income taxes for all provinces except Quebec (which has its own legislation for individuals and corporations) and Alberta (which collects its own corporate income taxes).

Residency

For Canadian tax purposes, a person's obligation to pay tax is based on residence. Any person (which includes a corporation) that is a resident of Canada is liable for tax on all world income. Canadian residents can reduce the amount of income taxes paid in Canada on foreign source income by way of foreign tax credits.

Residence is a question of fact. An individual is a resident of Canada if he or she usually resides in Canada—that is, if his or her essential residential ties are to Canada. An individual will be deemed to be a Canadian resident if he or she resides in Canada for at least 183 days in a year. A corporation is considered resident in Canada if it was incorporated in Canada after 1965 or if its headquarters and management are in Canada.

Non-residents may be subject to taxation in Canada on Canadian source income.

Canada has tax treaties with a number of different countries (see Schedule 5 below). These treaties are designed to prevent double taxation for people who would otherwise pay tax on the same income in two countries.

Taxation of partnerships

A partnership is not taxable for income tax purposes; however, its income must be computed as though it were a separate person. This income is then allocated to the respective partners pro-rata to their interest in the partnership.

Administration and tax filing

The Canadian tax system is based on self-assessment. Taxpayers are required to prepare and file the prescribed tax returns. The tax liability is satisfied by source deductions, tax instalments and payment on filing.

The deadline for filing personal income tax returns is April 30 (or June 15 in limited circumstances) of the following calendar year. Corporations must file their returns within six months of the corporate year-end. It is not possible to extend the filing deadlines. Late returns are subject to penalties and interest on the amounts due.

Individuals are required to declare their income on a calendar year basis. Corporations may elect a fiscal period not exceeding 12 months and file on that basis.

Types of income

There are three basic types of income:

- 1 Income from an office or employment (applicable to individuals only)
- 2 Income from a business
- 3 Property income

The income tax legislation provides a number of deductions to determine income for tax purposes. However, in the case of employment income, very few deductions are allowed, although contributions to a pension plan and certain travelling and employment related expenses may be deducted.

Business income is calculated according to certain legislative provisions and concepts established according to jurisprudence:

- Income is generally calculated according to GAAP in Canada (soon to be GAAP for Private Enterprises or IFRS¹).
- Capital expenditures may be amortized in accordance with regulations (Schedule 1).
- Expenses must be reasonable.
- Interest expenses may be limited, particularly when paid to non-residents.

Business losses may be used to reduce world income. Unused business losses can be carried back three years and carried forward seven, ten or twenty² years (the carry-forward period is determined by the year the loss is incurred).

The amount of a capital gain subject to tax is half of the gain otherwise realized. Capital losses are subject to the same 50% rule and may only be offset against capital gains. Unused capital losses may be carried back three years and forward indefinitely against capital gains. These rules apply equally to individuals and corporations.

¹ International Financial Reporting Standards.

² The twenty year period applies to losses that arose in 2006 or subsequent years; ten years for losses that arose in taxation years ending after March 22, 2004, and before 2006, and seven years for losses that arose in taxation years ending before March 23, 2004.

Income tax rates

Individuals are generally taxed at progressive rates (see Schedule 2 – Personal Income Tax Tables below), and may also be entitled to personal tax credits and deductions for various expenses incurred during the year. Schedule 3 illustrates the 2009 top marginal rates of tax by province for various types of income.

The corporate tax rate (see Schedule 4 – Corporate Income Tax Tables below) is based on

- the type of corporation,
- who controls the corporation, and
- the nature of the income earned.

Dividends constitute a distribution of a corporation's income; therefore, they are generally only taxed when they are paid to a shareholder who is not a corporation. This means that corporations do not pay any income tax on most dividends received from other corporations. However, in order to avoid an indefinite deferral of tax on dividends received by a corporation, a refundable tax applies to dividends received from corporations in which the recipient has less than a 10% interest. The rate of refundable tax is currently 33 1/3% of the dividends received. This tax is refunded when dividends are paid by the corporation to the individual shareholders.

For 2006 and subsequent years, there are two types of taxable dividends that can be paid by a corporation: eligible and ineligible (or regular dividends). Eligible dividends are taxed at a lower rate than regular dividends (see Schedule 3 below). In general, dividends paid out of corporate income that is taxed at the general corporate rate will be eligible dividends. Dividends paid out of income that has been taxed at the lower corporate rate (see the small business rate in Schedule 4 below) will be regular dividends.

The notion of associated corporations is very important for the purpose of Canadian income tax legislation. It limits the application of certain tax measures within a group of corporations controlled by a person or group of persons.

Taxpayers can transfer their business or property to a corporation using rollover measures, which allow for income tax to be deferred.³ Several provisions also allow for corporate reorganizations to take place free of tax. There are specific anti-avoidance provisions to prevent corporations from converting taxable capital gains into non-taxable inter-corporate dividends in the course of corporate reorganizations

Canada also has a series of anti-avoidance rules designed to discourage abuse or misuse of other tax provisions.

Capital tax (corporations)

Although the federal government used to apply a capital tax on large corporations, this tax was eliminated as of January 1, 2006. A separate capital tax still applies for financial institutions and

³ Similar measures apply on transfers by an individual to a partnership.

insurance corporations. Taxable capital in excess of \$1 billion is subject to the tax, at a single tax rate of 1.25%.

In an effort to promote investment in Canada and its provinces and territories, the provinces have all agreed to phase out their general capital tax (i.e., capital tax on ordinary corporations) over a period of years. Currently, only Manitoba, Quebec, Nova Scotia and Ontario assess a general capital tax on corporations with permanent establishments in those provinces. Ontario capital tax will be completely eliminated by July 1, 2010. Manitoba and Quebec will phase out the general capital tax by January 1, 2011. Nova Scotia capital tax will be eliminated by July 1, 2012.

All jurisdictions (except Alberta and the three Territories) will retain a capital tax on financial institutions and, in some cases, resource and Crown corporations.

Non-resident corporations

A foreign corporation can carry on business in Canada through a permanent establishment in Canada in the form of a branch, or by incorporating a Canadian subsidiary. A permanent establishment includes a fixed place of business such as a branch, office, workshop, factory, or place of management. A foreign corporation can also carry on business in Canada without having a permanent establishment there by, for example, soliciting orders or offering something for sale in Canada through an agent present in Canada.

When a non-resident corporation sets up a subsidiary in Canada, it gets taxed at the applicable combined federal and provincial tax rate on income earned in Canada. This is no different than if a branch were to be set up instead. When a non-resident corporation carries on business in Canada without having a permanent establishment there, it's technically subject to Canadian tax on the income that is earned by that business in Canada. However, an income tax treaty between Canada and the home country of the non-resident corporation may provide for an exemption from Canadian tax.

The differences between a branch and a subsidiary lie with the additional taxes that are imposed. For a Canadian subsidiary of a non-resident corporation, there is a withholding tax of 25% on certain payments made by the subsidiary to the non-resident "parent" corporation (i.e., payments of dividends, royalties, interest, rents, trust income and other investment income). This tax may be reduced by a tax treaty between Canada and the home country of the non-resident corporation (see Schedule 5 – Tax Treaties below).

On the other hand, where a Canadian branch is set up, there is no 25% withholding tax for amounts paid to the non-resident company. This created an advantage for non-resident corporations to prefer a branch over a subsidiary. In order to equalize the Canadian tax position between a branch and a subsidiary, the government decided to impose a 25% branch tax on Canadian branch profits that are **not** reinvested in Canada by the non-resident company (this branch tax may also be reduced by tax treaties – see Schedule 5 below).

Depending on the tax laws of the foreign jurisdiction, it is permissible to consolidate the income (or loss) of a Canadian branch with the income (or loss) of the non-resident company. However, a Canadian subsidiary's income (or loss) generally cannot be consolidated with that of its foreign parent

company for non-Canadian income tax purposes. Non-resident companies also have the option of carrying on their Canadian activities through a Canadian unlimited liability company (ULC).⁴ This type of entity could be attractive to US taxpayers that are able to treat such vehicles as flow-through entities for their own domestic tax purposes. This means that any Canadian source income or losses, together with any associated Canadian tax paid, can be flowed through to the US corporate shareholder. Although ULCs have been quite popular in the past, certain measures in the recently revised Canada-US tax treaty will significantly affect the use and popularity of these companies.

As of January 1, 2010, payments made by a ULC that is fiscally transparent for US tax purposes, to US recipients, in the form of royalties, interest, certain management fees or dividends, will in general terms be subject to 25% Canadian domestic withholding tax without any reduction under the Canada-US tax treaty.

There are also “thin capitalization” tax rules that can result in a reduction in the amount that can be claimed as a tax deduction for interest expense. These rules will apply where the Canadian subsidiary has outstanding debts to the foreign “parent” company that exceeds the subsidiary’s equity by a ratio of 2:1.

When deciding which structure should be used to carry on business in Canada, professional tax and legal advice should be obtained.

Transfer pricing rules

Canadian transfer pricing legislation is similar to that of other industrialized countries, such as the US, UK and Australia.

Taxpayers are required to adopt the arm’s length principle in setting transfer prices for transactions with related non-resident persons and to document the basis of the transfer pricing.

The documentation for a particular tax year must be completed by the due date for filing that year’s tax return. Failing to comply can result in a penalty calculated at 10% of the transfer pricing adjustment; the penalty can apply even though no additional tax arises as a result of the transfer pricing adjustment.

Customs and excise duties

Customs duties are determined by the customs tariff, which sets out a specific list describing the class of goods and setting out the corresponding rate of duty. The customs duty rate is determined according to the country of origin of the goods and whether the country falls under a most-favoured-nation status. The North America Free Trade Agreement (NAFTA), signed by the governments of the United States, Canada and Mexico, provides for the reduction or elimination of tariffs for goods traded between these three participating countries.

Excise duties are applied to alcohol, beer, tobacco and related products.

⁴ The provinces of Nova Scotia, Alberta and British Columbia each have legislation that allows for the formation of such entities.

Sales taxes

Goods and Services Tax (GST)/Harmonized Sales Tax (HST)

Most goods or services bought, sold or provided in Canada, or imported into the country, are subject to 5% GST. In general, businesses can recover the tax through an input tax credit if the good or service is acquired for commercial activities.

The provinces of Newfoundland and Labrador, Nova Scotia and New Brunswick have “harmonized” their provincial sales taxes with the GST resulting in a single sales tax being levied on goods and services supplied in those provinces. This tax is called the Harmonized Sales Tax or HST. It replaces the GST and the provincial sales tax with a combined 5% GST and an 8% provincial component resulting in an HST rate of 13% (15% in Nova Scotia as of July 1, 2010). Certain “place of supply rules” determine when to charge the 5% GST or the 13% HST (Schedule 7 – Sales Tax Rates). Ontario and British Columbia have both announced that they plan to implement a harmonized sales tax, effective July 1, 2010. It’s proposed that the harmonized rate will be 13% in Ontario (similar to the other harmonized provinces) and 12% in British Columbia.

Zero-rated goods and services are taxed at a rate of 0%. These goods and services include those intended for export, basic groceries, certain equipment intended for a farmer or fisherman, prescription drugs, and certain medical devices (see Schedule 6 – Zero-rated Goods and Services below).

The GST does not apply to tax-exempt goods and services. However, all the inputs used to manufacture, produce or sell the goods or services are ineligible for input tax credits. Most purchases subject to tax exemption are essential services and financial services (see Schedule 6 – Tax-exempt Goods and Services below).

Any person or business carrying on a commercial activity in Canada with sales of more than \$30,000 a year is required to register and collect the GST on the sale of any taxable good or service as part of this activity. Others may elect not to register, but will then have to pay the GST on the taxable goods and services they buy and will not be able to claim an input tax credit.

A registrant carrying on taxable or zero-rated commercial activities may claim a credit for any tax paid on inputs. An input tax credit is calculated from the GST or HST paid on expenses used in a business commercial activity. The input tax credit will be deducted from the taxes collected on taxed sales. The net amount will be the remittance to be paid or the refund to be claimed from Canada Revenue Agency, as the case may be.

Registrants will have monthly, quarterly or annual reporting periods, depending on their sales.

Provincial sales taxes

Nearly all provinces levy sales tax on goods and certain services that vary between 5 and 10 per cent. The tax rate varies according to province and some also levy tax on resources (see Schedule 7 – Sales Tax Rates below).

Other mandatory payments

Employment Insurance

The Employment Insurance program is controlled by the federal government. Employers and employees are required to contribute to the plan. The employer's required contribution is 1.4 times the amount required to be remitted by the employee. The employer claims the amount paid as a tax deduction and the employee gets a non-refundable tax credit.

Canada Pension Plan

Employers and employees in all provinces except Quebec are required to contribute equally to the Canada Pension Plan. Contributions are based on an employee's income. Quebec is the only province that has its own pension plan, the Quebec Pension Plan, which resembles the Canada Pension Plan. Again, the employer can claim the amount paid as a tax deduction and the employee gets a non-refundable tax credit.

Health insurance and employer health tax

Certain provinces require their residents to remit a health care premium (British Columbia, Quebec and Ontario). Some provinces (e.g., Manitoba, Ontario, Quebec, and Newfoundland and Labrador) also levy a payroll tax on remuneration for individuals employed in that jurisdiction. The payroll tax is used to fund health care in that province. However, in this case, the tax is payable by the employer rather than the employee. Generally, employers who have permanent establishments in the respective provinces are required to pay the tax at a graduated tax rate depending on the total amount of remuneration paid in the year by the employer to its employees.

Property taxes

Property owners in Canada are required to pay property tax on real estate. The amount paid is based on the current use and value of the land. Property tax rates vary from municipality to municipality, although provincial legislation determines how property taxes are to be assessed.

Estate tax/inheritance tax

There are no inheritance taxes in Canada. Any income or unrealized gains accrued up to the date of death are taxed on the final return of the deceased at normal tax rates and not included on an estate return. However, assets that pass to beneficiaries through a person's Last Will and Testament may be subject to probate fees. The rate of probate varies from province to province.

Tax schedules**Schedule 1 – classes for capital cost allowance purposes**

(Partial list)

Property	Rates
Leasehold improvements	Straight-line over lease term minimum 5 years
Automobiles	30%
Buildings	4%/6% or 10% ⁵
Application software	100%
Machinery-equipment (manufacturing)	50% straight-line or 30% ⁶
Furniture	20%
Computers and systems software	55% or 100% ⁷
Parking lots	8%

Schedule 2 – individual tax tables

2009 federal tax rates

Tax brackets:

Taxable income	Tax
0 to \$40,726	15%
\$40,727 to \$81,452	\$6,109 plus 22% of amounts exceeding \$40,726
\$81,453 to \$126,264	\$15,069 plus 26% of amounts exceeding \$81,452
Over \$126,264	\$26,720 plus 29% of amounts exceeding \$126,264

⁵ Buildings acquired after March 18, 2007, and used “all or substantially all” (90%) for M&P in Canada, qualify for a CCA rate of 10% as opposed to 4%. Other non-residential buildings acquired after March 18, 2007 that are not used 90% for M&P may qualify for a CCA rate of 6% as opposed to 4%.

⁶ There is a temporary 50% CCA rate for manufacturing and processing machinery and equipment purchased after March 18, 2007 and before 2012.

⁷ There is a temporary CCA rate of 100% for computer hardware and systems software purchases after January 27, 2009 and before February 1, 2011.

2009 provincial taxes

All of the provinces have implemented a “tax on income” system. This system permits the province to levy its provincial tax directly on taxable income rather than as a percentage of federal tax. It gives the province the flexibility to determine its own tax brackets and non-refundable credits.

Tax brackets:	
Taxable income	Tax
British Columbia	
\$0 to \$35,716	5.06%
\$35,717 to \$71,433	\$1,807 plus 7.7% on the amount exceeding \$35,716
\$71,434 to \$82,014	\$4,557 plus 10.5% on the amount exceeding \$71,433
\$82,015 to \$99,588	\$5,668 plus 12.29% on the amount exceeding \$82,014
Over \$99,589	\$7,828 plus 14.7% on the amount exceeding \$99,588
Alberta	
All income	10%
Saskatchewan	
\$0 to \$40,113	11%
\$40,114 to \$114,610	\$4,412 plus 13% on the amount exceeding \$40,113
Over \$114,610	\$14,097 plus 15% on the amount exceeding \$114,610
Manitoba	
\$0 to \$31,000	10.8%
\$31,001 to \$67,000	\$3,348 plus 12.75% on the amount exceeding \$31,000
Over \$67,000	\$7,938 plus 17.4% on the amount exceeding \$67,000
Ontario (a)	
\$0 to \$36,848	6.05%
\$36,849 to \$73,698	\$2,229 plus 9.15% on the amount exceeding \$36,848
Over \$73,698	\$5,601 plus 11.16% on the amount exceeding \$73,698
Quebec	
\$0 to \$38,385	16%
\$38,386 to \$76,770	\$6,142 plus 20% on the amount exceeding \$38,385
Over \$76,770	\$13,819 plus 24% on the amount exceeding \$76,770
New Brunswick	
\$0 to \$35,707	9.65%
\$35,708 to \$71,415	\$3,446 plus 14.5% on the amount exceeding \$35,707
\$71,416 to \$116,105	\$8,624 plus 16% on the amount exceeding \$71,415
Over \$116,105	\$15,774 plus 17% on the amount exceeding \$116,105
Prince Edward Island (b)	
\$0 to \$31,984	9.8%
\$31,985 to \$63,969	\$3,134 plus 13.8% on the amount exceeding \$31,984
Over \$63,969	\$7,548 plus 16.7% on the amount exceeding \$63,969
Nova Scotia (c)	

Tax brackets:	
Taxable income	Tax
\$0 to \$29,590	8.79%
\$29,591 to \$59,180	\$2,601 plus 14.95% on the amount exceeding \$29,590
\$59,181 to \$93,000	\$7,025 plus 16.67% on the amount exceeding \$59,180
Over \$93,000	\$12,663 plus 17.5% on the amount exceeding \$93,000
Newfoundland and Labrador	
\$0 to \$31,061	7.7%
\$31,062 to \$62,121	\$2,392 plus 12.8% on the amount exceeding \$31,061
Over \$62,121	\$6,368 plus 15.5% on the amount exceeding \$62,121
Yukon (d)	
\$0 to \$40,726	7.04%
\$40,727 to \$81,452	\$2,867 plus 9.68% on the amount exceeding \$40,726
\$81,453 to \$126,264	\$6,809 plus 11.44% on the amount exceeding \$81,452
Over \$126,264	\$11,935 plus 12.76% on the amount exceeding \$126,264
Northwest Territories	
\$0 to \$36,885	5.9%
\$36,886 to \$73,772	\$2,176 plus 8.6% on the amount exceeding \$36,885
\$73,773 to \$119,936	\$5,348 plus 12.2% on the amount exceeding \$73,772
Over \$119,936	\$10,980 plus 14.05% on the amount exceeding \$119,936
Nunavut	
\$0 to \$38,832	4%
\$38,833 to \$77,664	\$1,553 plus 7% on the amount exceeding \$38,832
\$77,665 to \$126,264	\$4,271 plus 9% on the amount exceeding \$77,664
Over \$126,264	\$8,645 plus 11.5% on the amount exceeding \$126,264

- a. In addition to the taxes above, there are two surtaxes. The first surtax is equal to 20% of Ontario tax over \$4,257, and the second surtax is equal to 36% of Ontario tax over \$5,370.
- b. In addition to the taxes above, there is a surtax equal to 10% of Prince Edward Island tax over \$12,500.
- c. In addition to the taxes above, there is a surtax equal to 10% of Nova Scotia tax over \$10,000.
- d. In addition to the taxes above, there is a surtax equal to 5% of Yukon tax over \$6,000.

Schedule 3 – 2009 top marginal rates of tax (federal and provincial combined)

Province	Interest and foreign dividends	Capital gains	Eligible dividends	Other Canadian dividends
	(%)	(%)	(%)	(%)
British Columbia	43.70	21.85	19.92	32.71
Alberta	39.00	19.50	14.56	27.71
Saskatchewan	44.00	22.00	20.35	30.83
Manitoba	46.40	23.20	23.83	38.21
Ontario	46.41	23.21	23.06	31.34
Quebec	48.22	24.11	29.69	36.35
New Brunswick	46.00	23.00	21.80	34.21
PEI	47.37	23.69	24.44	38.15
Nova Scotia	48.25	24.13	28.35	33.06
Nfld and Labrador	44.50	22.25	22.89	32.71
Yukon	42.40	21.20	17.23	30.49
Northwest Territories	43.05	21.53	18.25	29.65
Nunavut	40.50	20.25	22.23	28.96

Schedule 4 – Corporate income tax tables (federal and provincial) for 2009

	Other corporations		
	Canadian controlled small business active business income	Man.	Non Man.
	(%)	(%)	(%)
Federal rate	11.0 or 19.0 (a)	19.0	19.0 or 28.0(b)
Provincial rates (c)			
Alberta	3.0	10.0	10.0
British Columbia	2.5	11.0(d)	11.0(d)
Prince Edward Island	3.2 or 2.1(e)	16.0	16.0
Manitoba	1.0(f)	13.0 or 12.0(g)	13.0 or 12.0(g)
New Brunswick	5.0	13.0 or 12.0	13.0 or 12.0(h)
Nova Scotia	5.0 (i)	16.0	16.0
Ontario	5.5 (j)	12.0	14.0
Quebec	8.0	11.9	11.9
Saskatchewan	4.5	10.0	12.0
Newfoundland	5.0	5.0	14.0
Northwest Territories	4.0	11.5	11.5
Nunavut	4.0	12.0	12.0
Yukon	2.5 or 4.0(k)	2.5	15.0

Notes:

- a. Larger corporations' access to the lower rate is restricted. The restriction applies to CCPCs whose taxable capital exceeds \$10 million for the preceding year. If the taxable capital is between \$10 million and \$15 million, the amount of taxable income that qualifies for the low rate is reduced and any eligibility ceases if taxable capital surpasses \$15 million. For 2009, the low rate is available on the first \$500,000 of active business income after which the 19% rate applies.
- b. The 28% rate applies to corporations that are investment corporations, mortgage investment corporations, mutual fund corporations and non-resident owned investment corporations. A refundable tax of 6.67% is imposed on investment income of a CCPC. This tax is refunded when the CCPC pays a dividend to its shareholders.
- c. Although for the 2009 calendar year the federal small business rate applies to the first \$500,000 of active business income, many of the provinces have a different business limit. For the 2009 calendar year the following provinces have a different threshold: British Columbia (\$400,000; the limit will increase to \$500,000 on January 1, 2010); Alberta (the threshold increased to \$460,000 on April 1, 2008 and to \$500,000 on April 1, 2009); Manitoba (\$400,000); Quebec (limit increased from \$400,000 to \$500,000 on March 20, 2009); Nova Scotia (\$400,000).
- d. This rate will be further reduced to 10.5% effective Jan. 1, 2010 and then to 10% effective Jan. 1, 2011.
- e. The small-business rate is being reduced by 1.1% each year, effective April 1 of each year. Therefore, the rate is reduced to 3.2% (effective April 1, 2008), to 2.1% (effective April 1, 2009), and to 1.0% (effective April 1, 2010).
- f. The small-business income tax rate will be reduced from 1% to zero, effective December 1, 2010.
- g. The general corporate rate was reduced from 13% to 12%, effective July 1, 2009.
- h. The general corporate tax rate is reduced from 13% to 12%, effective July 1, 2009. This rate will be further reduced to 11% on July 1, 2010, 10% on July 1, 2011 and to 8% on July 1, 2012.
- i. Certain newly incorporated small businesses are not subject to any tax on income qualifying for the small-business deduction for their first three taxation years.
- j. The small-business rate will be reduced from 5.5% to 4.5%, effective July 1, 2010. Ontario claws back the benefit of the small-business tax rate (in the form of a surtax) if taxable income falls within a specified range (\$500,000 and \$1,500,000). The effect is to recover the entire small-business deduction once taxable income reaches \$1,500,000. Effective July 1, 2010, it is proposed that this clawback will be eliminated.
- k. The rate for manufacturing income is 2.5% and the rate for non-manufacturing income is 4%.

Schedule 5 – tax treaties in effect, signed but not yet in force or under negotiation

Algeria	Iceland	Papua New Guinea
Argentina	India	Peru, Republic of
Armenia	Indonesia	Philippines
Australia	Ireland	Poland
Austria	Israel	Portugal
Azerbaijan	Italy	Romania
Bangladesh	Ivory Coast	Russian Federation
Barbados	Jamaica	Senegal
Belgium	Japan	Serbia and Montenegro
Bolovia	Jordan, The Hashemite Kingdom of	Singapore
Brazil	Kazakhstan	Slovak Republic
Bulgaria	Kenya	Slovenia
Cameroon	Korea, Republic of	South Africa
Chile	Kuwait	Spain
China, People's Republic of	Kyrgyzstan	Sri Lanka
Colombia	Latvia	Sweden
Costa Rica	Lebanon	Switzerland
Croatia	Lithuania	Tanzania, United Republic of
Cuba	Luxembourg	Thailand
Cyprus	Madagascar	Trinidad & Tobago
Czech Republic	Malaysia	Tunisia
Denmark	Malta	Turkey
Dominican Republic	Mexico	Ukraine
Ecuador	Moldova, Republic of	United Arab Emirates
Egypt	Mongolia	United Kingdom
Estonia	Morocco	United States of America
Finland	Namibia	Uzbekistan
France	Netherlands	Venezuela, Bolivarian Republic of
Gabon	New Zealand	Vietnam, Socialist Republic of
Germany	Nigeria	
Greece	Norway	
Guyana	Oman	
Hungary	Pakistan	

Schedule 6 – Goods and Services Tax (GST)/Harmonized Sales Tax (HST)**Tax-exempt Goods and Services**

- Used residential housing
- Long-term residential accommodation and residential condominium fees
- Some sales of vacant land or farmland
- Most health, medical and dental services performed by licensed physicians or dentists for medical reasons
- Child care services for children 14 years old and younger
- Bridge, road and ferry tolls
- Many educational services
- Music lessons
- Most food or beverages sold in elementary, secondary and post-secondary institutions
- Most services provided by financial institutions
- Arranging for and issuing insurance policies by insurance companies, agents and brokers
- Certain goods and services provided by charities, non-profit organizations, governments and other public service bodies

Zero-rated goods and services

- Prescription drugs and drug-dispensing fees
- Medical devices
- Basic groceries
- Agriculture and fishing
- Most farm livestock
- Exports
- Many transportation services where the origin or destination is outside Canada
- Any supply of property or a service that is for the use of the Governor General

Schedule 7 – sales tax rates

Jurisdiction	Tax name	Provincial rate	Federal rate	Combined rate
Federal	Goods and Services Tax (GST)	N/A	5%	N/A
British Columbia	Social Services Tax (SST)	7%	5%	12% ⁸
Alberta	N/A	N/A	5%	5%
Saskatchewan	Provincial Sales Tax (PST)	5%	5%	10%
Manitoba	Retail Sales Tax (RST)	7%	5%	12%
Ontario	Retail Sales Tax (RST)	8%	5%	13% ⁹
Quebec	Quebec Sales Tax (QST)	7.5%	5%	12.875% ¹⁰
Nova Scotia	Harmonized Sales Tax (HST)	N/A	N/A	13% ¹¹
New Brunswick	Harmonized Sales Tax (HST)	N/A	N/A	13%
Newfoundland & Labrador	Harmonized Sales Tax (HST)	N/A	N/A	13%
Prince Edward Island	Revenue Tax (RT)	10%	5%	15.5% ¹²
Yukon	N/A	N/A	5%	5%
Northwest Territories	N/A	N/A	5%	5%
Nunavut	N/A	N/A	5%	5%

⁸ Note that as of July 1, 2010, BC proposes to adopt a 12% HST in lieu of the GST and PST.

⁹ Note that as of July 1, 2010, Ontario proposes to adopt a 13% HST in lieu of the GST and PST.

¹⁰ QST is calculated on both the sales amount and the GST.

¹¹ Note that as of July 1, 2010, Nova Scotia proposes to raise HST to 15%.

¹² RT is calculated on both the sales amount and the GST.

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