

International Tax Canada Highlights 2018



Investment basics:

Currency – Canadian Dollar (CAD)

Foreign exchange control – None. No restrictions are imposed on borrowing from abroad; the repatriation of capital; or the ability to remit dividends, profits, interest, royalties and similar payments from Canada.

Accounting principles/financial statements – Canadian GAAP requires a Publicly Accountable Enterprise to use IFRS. A non-Publicly Accountable Enterprise may use IFRS or Accounting Standards for Private Enterprises. Financial statements must be prepared annually.

Principal business entities – These are the corporation, unlimited liability company, sole proprietorship, partnership, joint venture, trust and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is resident in Canada if it is incorporated in Canada or if its central management and control is located in Canada.

Basis – Residents are taxed at the federal and provincial/territorial levels on their worldwide income. Certain income of controlled foreign affiliates is taxed on an accrual basis. Taxation also can arise in respect of investments in certain nonresident trusts and offshore investment funds. Nonresidents are taxed on certain types of Canadian-source income.

Taxable income – Corporation tax is imposed on a company's profits, which consist of business/trading income, investment income and capital gains. Normal

business expenses may be deducted in computing taxable income.

Taxation of dividends – *Private corporations:* Dividends received from a taxable Canadian corporation or a corporation resident in Canada are deductible in computing corporate income tax. However, dividends from nonconnected corporations are subject to an additional tax, which is refunded when the corporation pays out taxable dividends to its shareholders. Dividends received from a foreign company generally are subject to tax, but deductions are available in respect of dividends from foreign affiliates. Where the payer is not a foreign affiliate, a credit for withholding tax generally is available.

Public corporations: Dividends received from a taxable Canadian corporation or a corporation resident in Canada are deductible for corporate tax purposes. Dividends received from a foreign company are subject to tax, but deductions are available in respect of dividends from foreign affiliates. Where the payer is not a foreign affiliate, a credit for withholding tax generally is available.

Dividends received by Canadian corporations from foreign affiliates are exempt if paid from exempt surplus, and are taxable with deductions for underlying foreign tax and withholding tax if paid from taxable surplus. Exempt surplus generally relates to active business income earned by an affiliate resident in, and carrying on an active business in, a country with which Canada has signed an income tax treaty. Dividends from affiliates located in nontreaty countries that enter into a tax information exchange agreement with Canada also may qualify as paid from exempt surplus. A third category of "hybrid surplus" relates to certain capital gains realized

by foreign affiliates. Dividends from hybrid surplus are 50% taxable. Canadian public and private corporations are required to track dividends paid out of general-rate and low-rate income pools for purposes of determining the availability of enhanced dividend tax credits for individuals when amounts are paid out to them.

Capital gains – Fifty percent of capital gains, less allowable capital losses, is included in income and taxed at the normal corporate income tax rate.

Losses – Trading losses may be carried back for three years and carried forward for 20 years. Capital losses may be carried back for three years and carried forward indefinitely.

Rate – The federal general corporate income tax rate is 15%. Provincial and territorial general corporate income tax rates range from 11.5% to 16%.

Surtax – No

Alternative minimum tax – Only the province of Ontario levies a corporate minimum tax.

Foreign tax credit – Foreign nonbusiness and business income tax paid in another country may be credited against Canadian tax on the same profits, but the credit is effectively limited to the amount of Canadian tax otherwise payable on the foreign business income. Excess foreign business income tax paid that cannot be claimed may be carried over on a per-country basis and applied against foreign business income of other years. The excess credit may be carried back three years and carried forward 10 years. Excess foreign nonbusiness income tax may be claimed as a deduction in computing income.

Participation exemption – No, but dividends received by corporate shareholders out of the exempt surplus of foreign affiliates are not taxable.

Holding company regime – No

Incentives – A refundable investment tax credit (ITC) of up to 35% of qualified expenditures for scientific research and experimental development is available for an eligible Canadian-controlled private corporation (CCPC). A nonrefundable ITC of up to 15% is available for a CCPC when it is not eligible for the refundable ITC and for a non-CCPC. Provincial incentives also are available.

A federal production tax credit for qualified Canadian labor expenditure incurred for an accredited production of films and videotapes also is available. The provinces offer similar incentives.

Withholding tax:

Dividends – Dividends paid by a Canadian resident corporation to a nonresident are subject to a 25% tax,

unless the rate is reduced under a tax treaty.

Interest – Interest paid by a Canadian resident to a nonresident generally is subject to a 25% tax, unless the rate is reduced under a tax treaty. Certain exemptions may apply, including an exemption for nonparticipating interest paid to arm's length foreign lenders.

Royalties – Royalties paid by a Canadian resident to a nonresident are subject to a 25% withholding tax, unless the rate is reduced under a tax treaty. Copyright payments made in respect of literary, dramatic, musical or artistic works are exempt from withholding tax under domestic law. The domestic law exemption does not apply to payments for a right in, or for the use of, motion picture films or films, videotapes or other means of reproduction for use in connection with television.

Technical service fees – Depending on the facts, certain technical service fees may be subject to a 25% withholding tax; however, treaty relief generally is available.

Branch remittance tax – A 25% branch profits tax is levied, unless the rate is reduced under a tax treaty.

Other – Depending on the facts, certain rental payments and management fees may be subject to a 25% withholding tax, unless the rate is reduced under a tax treaty.

Other taxes on corporations:

Capital duty – See "Other," below.

Payroll tax – Manitoba, Quebec, Ontario and Newfoundland impose a formal employer payroll tax (called by different names), with the top rate ranging from 1.95% to 4.26% of the annual gross wages, salary and other remuneration paid by an employer. In the Northwest Territories and Nunavut, the payroll tax is levied on employees and is deducted at source by employers. In Quebec, employers also must pay a labor standards contribution of 0.07%; provided the total annual gross wages exceed CAD 2 million, the employer also must participate in workforce skills development, investing 1% of annual gross wages in training or paying the non-invested difference to the Quebec government.

Real property tax – Municipal authorities levy taxes on the occupation of real property. The tax is deductible in calculating the corporate tax liability.

Social security – Both the employer and the employee are required to make employment insurance and government pension plan contributions, with the amount based on the employee's earnings.

Stamp duty – No

Transfer tax – All provinces impose registration fees or taxes on the transfer of real property.

Other – There is no federal or provincial general corporation capital tax. (Note, however, that a number of provinces and the federal government do impose a capital tax on financial institutions. The territories do not impose this tax.)

Various provinces and municipalities impose business license fees that depend on the type of business and the location in which it is carried on.

Anti-avoidance rules:

Transfer pricing – When a taxpayer enters into transactions (including but not limited to the purchase or sale of goods or services and the payment or receipt of royalties and interest) with a non-arm's length nonresident, the transaction price should be the price that would have been set between persons dealing at arm's length. If the price charged differs from an arm's length price, upward or downward adjustments will be made to ensure the price charged reflects an arm's length price. Proper documentation must be maintained to support the transfer pricing methodology used. If contemporaneous documentation is not prepared, penalties may apply if adjustments exceed specified amounts.

Country-by-country reporting (CbCR) is required for fiscal years beginning on or after 1 January 2016 of multinational enterprise (MNE) groups that have total consolidated group revenue of EUR 750 million or more, as reflected in the consolidated financial statements in the immediately preceding fiscal year. The Canadian CbCR requirements generally follow the guidance contained in the BEPS action 13 final report. CbCR must be filed no later than 12 months after the last day of the fiscal year to which the report relates (if notification of systemic failure has been received, this deadline can be extended to 30 days after receipt of the notification).

Administrative penalties apply in case of noncompliance. There is no obligation to make a notification in advance of the CbCR filing. A secondary reporting mechanism applies under certain conditions.

Thin capitalization – There are limitations on the deductibility of interest on outstanding debts to specified nonresident persons. The amount of interest-bearing debt owed by a Canadian corporation to related nonresident persons can be no greater than 1.5 times the amount of its equity, or a portion of the interest deduction will be disallowed and considered to be a deemed dividend subject to withholding tax.

Controlled foreign companies – Canadian residents must pay Canadian income tax on a current basis to the extent of their share of foreign accrual property income

(FAPI) earned by a controlled foreign affiliate. The definition of "controlled foreign affiliate" is broad, and an anti-avoidance rule may apply if shares are acquired or disposed of and the principal purpose is to avoid this status.

Disclosure requirements – Canadian corporations, trusts and individuals that hold or acquire investments outside of Canada are required to report any holdings that are in excess of CAD 100,000 to the Canadian tax authorities on an annual basis. In addition, Canadian corporations, trusts and individuals are required to report to the Canadian tax authorities any transfers or loans made to, distributions received from or indebtedness to a nonresident trust.

A nonresident that disposes of or plans to dispose of taxable Canadian property is required to disclose this to the Canada Revenue Agency before or within 10 days of the disposition, subject to a possible exception for treaty-protected property (notification within 30 days of the disposition).

A person who sells tax shelters is required to register for an ID number, provide investors with tax shelter ID numbers and statements and file an annual information return disclosing certain information about the persons who have invested in those tax shelters.

The province of Quebec and the federal government have introduced measures, including disclosure requirements and additional penalties, to combat what is perceived to be aggressive tax planning.

Other – There are numerous anti-avoidance rules to address specific perceived abuses and a general anti-avoidance rule (GAAR), which is meant to be an all-encompassing anti-avoidance rule where no specific rule applies.

Compliance for corporations:

Tax year – The tax year of a corporation is its fiscal period, which is the period for which the accounts of the business are ordinarily prepared. A tax year may not exceed 53 weeks.

Consolidated returns – Consolidated returns are not permitted; each corporation is required to file a separate return.

Filing requirements – Federal and provincial tax authorities require monthly or other periodic installment payments on account of the current year tax liability. Final tax payments generally are due within two months of year end. The corporate tax return must be filed within six months of the end of the taxation year.

Penalties – Penalties are levied for the late filing of returns, omission of amounts required to be included in

computing income in a return or for furnishing false or negligent statements. Penalties also apply for failure to withhold and remit taxes as required.

Rulings – Subject to specific exclusions, the federal tax authorities will issue an advance income tax ruling to taxpayers, which is a written statement on how they will apply a particular section of the tax law to a definite transaction that has not yet occurred. Once issued, the ruling is binding, provided all the facts—which remain confidential—have been presented by the taxpayer to the tax authorities.

Personal taxation:

Basis – Canadian residents are taxed at the federal and provincial levels on their worldwide income. Certain income of controlled foreign affiliates is taxed on an accrual basis. Taxation also can arise in respect of investments in certain nonresident trusts and offshore investment funds. Nonresidents are taxed on Canadian-source income and on gains from the disposition of taxable Canadian property.

Residence – An individual is resident in Canada if he/she resides in Canada or is ordinarily resident in Canada. A nonresident individual will be deemed to have been resident in Canada if he/she spends at least 183 days in Canada in a calendar year. Except for Quebec provincial tax purposes, domestic residency status may be overridden by a tax treaty.

Filing status – There are no family income tax returns in Canada. Family members each must compute their income tax liability separately. However, attribution rules may require an individual to report income earned by a family member from property transferred by the former to the latter.

Taxable income – Employment income (including most employment benefits), certain investment income and profits earned from a business or profession are taxable at the individual's applicable personal tax rate. Dividends received from a Canadian corporation are subject to a more favorable tax regime.

Capital gains – Fifty percent of capital gains, less allowable capital losses, is included in income and taxed at the individual's applicable income tax rate.

Deductions and allowances – Subject to certain restrictions, deductions or nonrefundable tax credits are granted for various outlays, including payments to registered retirement savings and pension plans, certain moving expenses, union and professional dues, child care expenses, medical expenses, charitable and political

donations and investment carrying charges. Tax credits may be available for spouses, age, disability and certain dependents.

Rates – Federal tax rates are progressive up to 33% (27.56% for residents of Quebec). Provincial/territorial tax rates also are progressive, with the maximum rate in the range of 11.5%-25.75%. Ontario imposes a surtax of up to 56% and Prince Edward Island imposes a surtax of 10% of the tax otherwise payable.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Municipal authorities levy taxes on the occupation of real property.

Inheritance/estate tax – There is no formal inheritance tax in Canada. However, a person who gives property as a gift is deemed to dispose of the property for proceeds equal to its fair market value. There is no formal estate tax, but a deceased taxpayer generally is deemed to have disposed of all property owned immediately before the time of death at fair market value.

Net wealth/net worth tax – No

Social security – Employed persons and their employers are required to make employment insurance and government pension plan contributions, with the amount based on the particular employee's earnings. Self-employed persons also must make government pension plan contributions.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities; however, a taxpayer may be required to make installment payments as well. The deadline to file an individual tax return and pay the outstanding tax liability is 30 April. Individuals and their spouses or common law partners that operate a business or profession have their filing deadline extended to 15 June; however, the tax liability still is due by 30 April. No other filing extensions are available.

Penalties – Penalties apply if returns are filed late. Interest is payable on any late balance owed, compounded daily. Where installment payments were required, penalties and interest may apply for late or missed payments.

Sales tax:

Taxable transactions – A federal value added tax (Goods and Services Tax (GST)) is levied on the provision of most goods and services in Canada and on certain imports. The province of Quebec levies a value added tax (Quebec Sales Tax (QST)) on the provision of most goods and services in Quebec and on certain imports into Quebec. The rules for the QST generally are harmonized with the GST, but it is administered separately by the province under a provincial statute. In Quebec, the QST applies in addition to the GST.

The provinces of New Brunswick (NB), Nova Scotia (NS), Prince Edward Island (PEI), Newfoundland (NL) and Ontario (ON) have harmonized their sales tax with the GST, and the Harmonized Sales Tax (HST) applies in these provinces. The HST is administered by the federal government under a single federal administration.

The provinces of British Columbia (BC), Saskatchewan (SK) and Manitoba (MB) levy and separately administer a more traditional single-incidence retail sales and use tax (PST) on the provision (or use) of most goods and certain services in those provinces. The PST also applies on certain imports into the respective province. In BC, SK, and MB, the PST applies in addition to GST.

Rates – The federal GST rate is 5% and the HST rate is 13% for goods and services supplied in the province of ON, and 15% for the provinces of NL, NS, NB and PEI. The QST rate is 9.975%. The PST general rates are as follows: BC, 7%; SK, 6%; and MB, 8%. Only the 5% GST is levied in Alberta and the territories.

Registration – GST/HST registration generally is required for every person engaged in a commercial activity in Canada. Registration is not required for small suppliers (i.e. persons who have under CAD 30,000 in worldwide taxable sales) or nonresidents of Canada who do not "carry on business" in Canada (with some exceptions). QST registration generally is required for every person engaged in a commercial activity in Quebec, but is not required for small suppliers or nonresidents of

Quebec who do not "carry on business" in Quebec (with some exceptions). The vendor registration rules for each PST province vary, and most provinces have "reach out" provisions to require registration by out-of-province vendors selling taxable property into the province.

Filing and payment – For a GST/HST and QST monthly or quarterly filer, the return is due on the last day of the month following the end of the reporting period. For an annual GST/HST or QST filer, the return is due three months after the end of the fiscal year for most annual filers (six months after year end for listed financial institutions that are annual filers). Quarterly installments are required by all annual filers. For SK and MB PST filers, the return is due on the 20th day of the month following the end of the reporting period. Under the PST system in ON, the PST return in respect of certain insurance premiums sold in ON is due on the 23rd day of the month following the end of the reporting period. In BC, the PST return is due at the end of the month following the reporting period. In all cases, payment is due when the return is due.

Other - In Canada, there are various other consumption taxes, including fuel taxes, carbon taxes and levies, other carbon pricing schemes and sales taxes on insurance premiums. These taxes may apply at the federal or the provincial level.

Source of tax law: Income Tax Act (RSC 1985, c. 1, 5th Supp.), Excise Tax Act (RSC 1985, c. E-15) and various other federal and provincial statutes

Tax treaties: Canada has 93 income tax treaties. Canada signed the OECD MLI on 7 June 2017, but has not yet ratified the treaty domestically.

Tax authorities: Canada Revenue Agency (CRA) and provincial authorities

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