Gilmour Knotts
INCORPORATED
CHARTERED ACCOUNTANTS
PROFESSIONAL CORPORATE TAX ADVISORS™

Metro Vancouver Member of

INTEGRA INTERNATIONAL®
Your Global Advantage

Gilmour Knotts
Chartered
Accountants

Doing Business in Canada 2014

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Doing Business in Canada

This guide is intended for international, non-resident of Canada, businesses who wish to enter into the Canadian market. We hope you will find the essentials on everything you will need to do business in Canada and will come to us with your questions and opportunities.

Canada has a combined English and French Heritage. The provinces and territories that are modern Canada were once English and French Colonies. Also the influence of the United States on the Canadian identity has been strong. Therefore, you will find the ways of doing business and the structure of the tax and business laws familiar if you are coming from an English, French or U.S. background.

In Canada we follow both the English Common Law and the French Civil Law approaches. This means that our Income Tax Act (the Act) for example has to make sense in both regimes. The Act is written in both English and French and is also technically interpreted in both common and civil law jurisdictions.

According to the 2006 census, Canada had approximately a third of its population from the British Iles and just under a third from other European origins, which includes approximately a sixth from French origins. The remaining third of the population reported other origins. Notably, approximately a twentieth from Aboriginal origins and approximately a fifteenth from Asian origins.

Canada has a strong social justice and enterprise spirit. Many of our federal and provincial institutions exist to provide social benefits. We have everything from government provided healthcare and government funded child daycare to government liquor stores. The government is both a provider of commercial services like transportation (urban rail for example) and a provider of social services like healthcare.

Being Entrepreneurial is a popular Canadian lifestyle. Statistics Canada reports that in 2012 there were almost 1.1 million businesses in Canada. Of these businesses, 98% were what Census Canada considers small businesses. There is a good publication on this titled “Key Small Business Statistics” which can be found on the industry Canada website www.ic.gc.ca.

Canada Facts and Information

Canada is a country occupying most of northern North America, extending from the Atlantic Ocean in the east to the Pacific Ocean in the west and northward into the Arctic Ocean. In Canada we say from Sea to Sea to Sea. It is the world's second largest country by total area. Canada's common border with the United States to the south and northwest is the longest in the world.

Canada's population has surpassed the 34 million mark. As of 2012, the population was estimated at 34,880,000.

The federation consists of 10 provinces (Alberta, British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario, Prince Edward Island, Quebec, and Saskatchewan) and 3 territories (Northwest Territories, Nunavut, and Yukon). Canada is governed as a parliamentary democracy and a constitutional monarchy with Queen Elizabeth II as its head of state. It is a bilingual nation with both English and French as official languages at the federal level. As one of the world's highly developed countries, Canada has a diversified economy that is reliant upon its abundant natural resources and upon trade—particularly with the United States, with which Canada has had a long and complex relationship.

Canada has the tenth largest economy in the world (measured in US dollars at market exchange rates), is one of the world's wealthiest nations, and is a member of the Organization for Economic Co-operation and Development (OECD) and Group of Eight (G8) as well as G-20, NATO, British Commonwealth, Francophonie, OAS, APEC, and UN. As with other developed nations, the Canadian economy is dominated by the service industry, which employs about three quarters of Canadians. Canada is unusual among developed countries in the importance of the primary sector, with the logging and oil industries being two of Canada's most important. Canada also has a sizable manufacturing sector in Central Canada, with the automobile industry especially important.

Canada has one of the highest levels of economic freedom in the world. Today Canada closely resembles the U.S. in its market-oriented economic system and pattern of production. According to the Forbes Global 2000 list of the world's largest companies in 2008, Canada had 69 companies in the list, ranking 5th next to France. As of 2008, Canada's total government debt burden was the lowest in the G8.

Canada's culture has historically been influenced by European culture and traditions, especially British and French. Over time, elements of the cultures of Canada's Aboriginal peoples and immigrant populations have become incorporated into mainstream Canadian culture. It has also been strongly influenced by that of its linguistic, economic, and cultural neighbor, the United States.

Canada’s culture, like that of most any country in the world, is a product of its history, geography, and political system. Being a settler nation, Canada has been shaped by waves of migration that have combined to form a unique blend of customs, cuisine, and traditions that have marked the socio-cultural development of the nation.

The level of Taxation in Canada is average among OECD countries. Approximately 70% of the Canadian government’s income comes from taxation, the rest from tariffs, fees, and investments. There are two systems of taxation in Canada – federal and provincial. Federal taxes are collected by the Canada Revenue Agency (CRA) and it also collects and remits income tax on behalf of eight of the provinces. Things are always a bit different for tax in Quebec due to its special status as the primarily French origin member of the federation. Therefore, please be sure to ask more questions if you are considering business in Quebec.

There is one federal sales tax called the GST or HST depending on the province or territory you are conducting business in. The GST stands for Goods and Services Tax and is 5% in all provinces or territories that do not have the HST. The HST stands for Harmonized Sales Tax which combines the federal and provincial tax, therefore its rate varies from province/territory. Some provinces or territories have their own sales taxes and these are charged on different items than the federal tax which can be confusing for business operations. Notably Alberta has no provincial sales tax and thus only the federal GST tax is charged on sales.

Canada’s currency is the Canadian dollar and in recent years it has been a strong currency. This is shown by a comparison to the U.S. dollar. In just over ten years from 2002 to 2014 it has gone from being valued at $0.60 U.S. to around $0.90 U.S., with a few high points in 2011 and 2012 when it was over $1.00 U.S.

Crossing the Border into Canada

When you enter Canada, a border services officer will ask to see your passport and a valid visa (if you are arriving from a country from which one is required). There are exceptions for children and for U.S. citizens, who can use other forms of ID to prove citizenship, but we advise it is wisest to travel with a passport as the exceptions are sometimes confusing and it is best not to be delayed at the border.

As a visitor, you can bring certain goods into Canada for your own use as personal baggage. Personal baggage includes clothing, camping and sports equipment, cameras, personal computers, and toiletries. It also includes vehicles, private boats and aircraft.

You must declare all goods when you arrive at the port of entry. Border services officers conduct examinations of goods being imported or exported to verify declarations.

It is wise to always check on current requirements for ID and visas. Please visit the Canada Border services web site at www.cbsa-asfc.gc.ca.

The general rule is that any "national" from any country that is not a Canadian citizen or a permanent resident will need a work permit to do work in Canada. There are some exceptions. For example, members of the North American Free Trade Zone (NAFTA) or other free trade agreements have exceptions that apply. There are four categories:

- Business Visitor
- Professional
- Intercompany Transfer
- Treaty Trader and Investor

Each situation has its own rules and we at Gilmour Knotts, Chartered Accountants can connect you with a professional to advise in this area. Mostly though the first investigatory visits to Canada would be classified under Business Visitor. As Business Visitor you do not need a work permit, but you do need to establish that you are a bona fide Business Visitor. Therefore, things like copies of conference agendas you are coming to attend, or letters of invitation to come visit a company, or if you have made it far enough to have a contract to provide service to a Canadian company bringing a copy of the contract with you are helpful. All of this is not generally necessary, but as we say here in Rainy British Columbia; "it is better to bring an umbrella and not use it than to forgot the umbrella and get wet". Visitors from NAFTA countries (U.S. and Mexico are almost never asked for this proof). Visitors from other countries are asked at the discretion of the border agents.

Corporate Structures

To do business in Canada, you must choose a business structure. This decision may be dictated by the way you have organized your operations and whether you intend to work on your own or in conjunction with others. You should also consider how the entity you choose is protected under the law and how your choice is affected by income tax rules and regulations. You may choose to operate your business as a Sole Proprietorship, Partnership or Corporation. Each has its own benefits and drawbacks and is treated differently for legal and tax purposes. Also foreign businesses operating in Canada can find that they are a special hybrid of corporation and proprietorship called a “Branch”.

Sole Proprietorship

A sole proprietorship is a business owned and operated by one individual. If you choose to operate your business as a sole proprietorship, your business is not considered a separate legal entity under the law but rather is an extension of yourself. This means you own the business assets directly and are directly responsible for the debt and other liabilities your business incurs. Your sole proprietorship’s income or loss is combined with your other earnings for income tax purposes. A creditor with a claim against the sole proprietorship would normally have a right against all your business and personal assets. This is known as unlimited liability.

A sole proprietorship is perhaps the easiest form of business to own and operate because it does not require any specific legal organization, except the normal requirements such as local business licenses or permits, sales tax and workers’ compensation registration. All business decisions are solely your responsibility and are a result of your interest and abilities.

Partnerships

There are generally two types of partnerships found in Canada. General Partnerships which are used by owner operated businesses and Limited Partnerships that are often used by tax shelters. Both partnerships are sometimes called joint ventures.

A general partnership is considered a legal entity under the law, but the rewards and risks of the partners are divided to all the partners and are not limited by the amount of involvement the partner has in the business. Most partnerships have a partnership agreement (written or unwritten) that determines what each partner has contributed and what each partner can draw as income or should report as a loss personally each year. This agreement does not limit the liability of even a minor partner if the partnership should default on its debts or owe more than it has available. In most cases the partners, like sole proprietors, have unlimited liability. For tax purposes, a partnership behaves like a sole proprietorship in that each partner reports and is responsible for his/her “pie slice” of the partnership’s assets, debts and income.

In Canada there are two types of limited partnerships with similar names which are confusing because they are quite different. Also partnerships are a provincially regulated form of business and thus things can be different from province to province. One type of limited partnership is a limited liability partnership (LLP). It is an entity within which your liability to the firm or its creditors can be limited to the amount you have invested. In Canada, a limited liability partnership is only available to groups of professionals such as lawyers, accountants and doctors. Some provinces limit this type of partnership entity even further.

The other type of limited partnership is a tax vehicle. This type has one general partner that assumes all the liability and the other limited partners are investors and do not have general liability.

Because a partnership is in some ways a legal entity under the law, it has rights and responsibilities in and of itself. A partnership is generally required to file a declaration of partnership with the Registrar of Companies in each province it conducts business in. A registered partnership can sign contracts, obtain trade credit and borrow money. When a partnership is small, most creditors require a personal guarantee of the partners. The main advantage of a partnership is in the working relationship between the partners. If you have partners with complementary talents, the workload is shared and the management team is likely well-rounded.

Corporation

There are two types of corporations in Canada. Private Corporations which are used by owner operated businesses and Public Corporations that are listed on public stock exchanges.

A corporation is a separate legal entity which exists under the authority of provincial or federal law. A corporation has substantially all the legal rights of an individual and is responsible for its own debts. It must file income tax returns and pay taxes on its income and its capital (if it is large enough). The tax rates available to private corporations are generally lower than the personal income tax rates available to sole proprietors and partners.

Typically, the shareholders of a corporation are protected from the liability of the business. However, when a corporation is small, creditors often require personal guarantees of the shareholders. The shareholders, directors and officers of a corporation may also be liable to preferred creditors such as Canada Revenue Agency and the Provincial Government. The legal protection afforded to the shareholders and preferred tax treatment of private corporations can far outweigh the additional expense of starting and administering a corporation.

Incorporating a business provides other advantages such as the ease of raising additional capital through the sale of more shares or taking on debt, or allowing an individual shareholder to sell or transfer their shares into the corporation. The incorporated business also has continuity; the original owners can sell their interest when they choose to retire.

Branch Operations

Foreign corporations operating in Canada are generally subject to a tax treaty and will find that there are rules regarding their "Branch" in Canada. This "Branch" will act much like a Corporation in that it will file corporate tax returns only reporting Canadian activities. It will also have some characteristics of a proprietorship, namely the liabilities can flow up to the foreign parent company and pooling of income from all sources might affect the taxes owing and especially impact the foreign tax credits they utilize under the tax treaty.

Reorganizations and "check the box"

Canadian tax does not have a "check the box" type system that allows the tax treatment of an entity to be determined at the time of tax filing. The system in Canada is permanent. Once you have selected a form of tax structure the business has that structure permanently. Structures can be "reorganized" but that reorganization requires Specialist Tax Knowledge (see us at Gilmour Knotts) and can trigger taxes. The key objective in a reorganization is usually to avoid taxes on the reorganization while adopting a new more tax efficient long term structure. The key triggers for reorganizations are; growth of the business beyond the tax efficiency of the structure it has, or changes in ownership, or lastly changes in tax rules.

Registering Your Company

When determining whether to incorporate your business or operate as a proprietorship or partnership; you should seek competent legal counsel and business oriented accountants, like us at Gilmour Knotts, Chartered Accountants, to determine if incorporating is the best option for your business. Whether you are incorporating your business or running your business as a proprietorship or partnership, you will need to choose a unique business name and register it. You will need to conduct a business name search to ensure the name you have chosen is not already taken, fill out the appropriate business registration form for each province you are operating business in and pay the applicable fees. If you are incorporating, your lawyer will prepare Articles of Incorporation, share registry, a cover letter and incorporation application. Please work with your legal and accounting professionals to set up a share structure that will be efficient for effective profit splitting and levels of control of the corporation.

An interesting fact about Canadian Corporations is that they generally do not require a local owner. This means that unlike some other countries, for example Mexico or China, a foreign company coming to do business in Canada can own 100% of the Canadian operations. However **some** provinces require at least one Canadian director.

If you do not have a name chosen when you incorporate, you may incorporate with the same name as your incorporation number and then operate under the name you choose as a trade name, or DBA name, short for “doing business as”.

In order to keep your business in good active standing, you will be required to complete and file annual reports to confirm your company’s address and directors. If you neglect to file or neglect to have your lawyer file this annual report, your company can become de-registered.

Operating Your Business

You have chosen your business structure and registered your business, now what? Now you will need to acquire a business license, a year end date, and a federal business number.

Business License

Most businesses require a municipal business license before they can operate legally within their municipalities. A municipality is a generic term for a city or regional area. Municipalities can regulate the businesses in their boundaries but cannot charge income tax to them. Generally municipalities raise tax funds through property taxation and the property tax rates are related to the type and use of the property. This relates back to the business license as a business requires a certain license, to locate in a certain municipal zone, which is designated for a certain type or range of types of businesses. You can find the information you need for the municipality you live in by looking in the blue pages of your phone book or on your city or town’s website. Business licenses are typically renewed annually.

Selecting a Year End Date

If you are operating your company as a proprietorship or partnership, your year end is automatically December 31. This is because your business’ income taxes are filed as part of your personal tax return.

If you are operating an incorporated company, you may choose your year end date. Often the largest factor in your decision about the corporation year end date is income tax and how to minimize or delay them. A corporation is required to file a tax return and report its earnings six months after the year end of the business. However, the corporation is required to finish paying its income taxes two months after the year end. There is an extension for small Canadian owned corporations to three months.

One of the largest opportunities for corporations to minimize or delay income taxes is by declaring its profits as bonuses to the shareholders or management. By doing this, the corporation zeros its income and is left with a break even income statement. No income taxes will be due for the corporation. The shareholders or managers who receive the bonuses can declare their income on their personal or other corporate tax returns as received anytime within 179 days after the bonus date. That means if you choose a July 31st year end date and declare a management bonus on your July 31, 2014 corporate financial statements, the company has 179 days to pay the bonus and payroll taxes. This means that the shareholder can delay reporting the income personally or in the other corporation and delay finalizing the payment of the taxes until the filing of the 2015 income tax return, which is generally filed and paid by April 30, 2016. By deciding to post a management bonus, the company can delay taxes. However, as wonderful as this sounds there are rules regarding the reasonableness of these bonuses and in fact using the bonus scheme can be opting to pay higher taxes. The higher taxes happen because corporate rates in Canada are very low and it can actually cost more to move money out of Canada or to move the money to personal hands in Canada.

There is a second benefit to the shareholder by delaying the bonus. The shareholder can split his/her income so that part of the bonus is paid and taxed on his/her 2014 personal taxes and part of the bonus is paid and taxed on his 2015 personal taxes thereby splitting his income so that he is in a lower tax bracket both years.

The year end of a corporation may only be changed under special circumstances. A change of year end is normally allowed by CRA when there is a sound business reason for it such as a change of control, or a major ongoing contractual commitment.

Federal Business Number from Canada Revenue Agency (CRA)

All Canadian businesses whether incorporated or not, must register for a business number from Canada Revenue Agency (CRA). Follow the link below to CRA's general website. From there look for business number registration. www.cra-arc.gc.ca.

This business number registration process registers your business for a federal tax number, sales tax number and payroll tax number. You will then be required to file and pay the appropriate federal, sales and payroll taxes as discussed in the following chapters.

Income Tax

There are five main forms of tax return filings in Canada **– T1, T2, T3, T4 & T5**

T1

The first is a T1 or personal income tax return. All individuals who owe tax are required to file a T1. This can mean that you are not required to file a tax return if you do not owe tax. However, this can lead to confusion as the only reliable way to know if you owe tax is to prepare a tax return and once prepared it would seem silly not to file it. If you are operating your business as a proprietorship or personal partnership, your business earnings and expenses are reported on your personal income tax return. A sole proprietorship is considered an extension of yourself, and is taxed as a part of your personal income and losses. In the first year of business, it is important to ensure that the business is correctly included on your personal income tax return and that all assets and liabilities are considered in the calculation of the income from the business.

The majority of partnerships are recognized by the federal taxation authorities as a separate entity and must file information returns that describe the income and/or losses allocated to each partner. The partners are then responsible for reporting this income on their personal or corporate income tax returns and pooling the income and losses with other sources of income and losses. The information slips that the limited partners receive are often complex and it is wise to consult Gilmour Knotts, Chartered Accountants when filing your personal or corporate income tax return.

Personal tax returns are always filed based on a calendar year. Personal income taxes are due by April 30th each year (you may be requested to pay quarterly instalments during the year as well). The deadline for filing your T1 is also April 30th. If you have a sole proprietorship, then the deadline is extended to June 15th but your taxes are still due on April 30th. Therefore, you must ensure that if there are taxes owing they are fully paid by April 30th to avoid penalties and interest.

General partnerships are also required to file a separate information return. As well each partner includes his share of income and losses in his personal income tax return. As with a sole proprietor, the partners should take care to plan the reporting of the impact of assets and debts of the business. Partners should be particularly careful to ensure that all partners report the business consistently and that each partner is reporting his share accurately. It is best to have a partnership statement of income prepared and attached to each partner's income tax return. This statement of income should clearly allocate the income/loss of the partnership to the partners. Some partners may have additional expenses that should also be reported. For example, the interest on a loan to buy into the partnership.

Personal income tax rates for 2014 can be found on CRA's website at:

www.cra-arc.gc.ca/tx/ndvdls/fq/txrts-eng.html

There are both federal tax rates and provincial tax rates as each province's rates are different. Tax rates are set by tax brackets in Canada; the higher your income, the higher your tax rate.

T2

The second type of tax return is a T2 or corporate tax return. Incorporated businesses are separate legal entities and therefore need to file a separate return for each corporation called a T2. The T2 should be prepared by a professional for the chosen year end date of the company. The deadline for filing with CRA is six months after the company's year end date and the deadline for topping up or finalizing paying the corporation's income taxes is two months after the year end (three months for Canadian Controlled Private Corporations). Generally corporate income taxes are due during the year as installments. The first year that a corporation owes taxes though there is an exception and the full payment for the year can be made without penalty after the year end and within the two month window. The T2 reflects the company's total financial picture. Financial statements are typically prepared to aid in the preparation of the corporate tax return. In all T2s a special schedule called The General Index of Financial Information (GIFI) is required. This GIFI contains information that is almost identical to a traditional accounting income statement and balance sheet. The company's assets, liabilities, income and expenses are all listed in detail in the return on this GIFI. From this GIFI there is reconciliation between income as calculated by the enterprise (generally GAAP, see later chapters in this booklet) and income for taxation. Certain items are add backs because they are non-deductible for income tax purposes or pro-rated such as personal life insurance and meals. The return is filed using the corporation's legal registered business name and its business number. Some provinces use a combined return so that only one return is filed to calculate both provincial and federal taxes and other provinces require separate tax returns to be filed federally and provincially.

If your corporation owes taxes upon filing, CRA will require the corporation to pay monthly tax instalments the next year.

The T2 income tax return uses as its starting point the accounting financial statements of the company. There is a central schedule in the T2 return that reconciles income for tax purposes with income for accounting purposes. This means that accounting profit can have a direct link to the tax paid and any differences are clearly reconciled.

Corporate tax return rates can be found at:

www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/rts-eng.html

There are both federal tax rates and provincial tax rates as each province's rates are different. For example, in British Columbia (BC) the federal tax rate is 15% and the provincial rate is 11% for a total of 26%. This is the rate paid by large corporations and non-resident corporations.

Small Business Deduction Limit

All corporations that qualify as Canadian Controlled Private Corporations (CCPC) are eligible for the small business deduction. This means they are eligible to pay the lowest net tax rate before surtax on their earnings up to the small business limit ($500,000 in 2014). The corporation must identify all associated corporations on their corporate tax returns as the Canadian small business limit is allocated between them. Any earnings above the small business deduction limit within any associated corporations are taxed at the higher surtax rates. For example, in British Columbia the CCPC small business federal tax rate is 11% and the provincial rate is 2.5% for a total of 13.5%.

Canadian Controlled Private Corporation (CCPC)

For a corporation to be a CCPC, it has to be a privately held corporation that is resident in Canada or incorporated in Canada. It must be owned and controlled by Canadian residents. Its shares must not be owned by a Canadian resident corporation that lists its shares on a designated stock exchange.

Penalties and Interest

All tax payments made after the due date will be assessed interest by CRA. Interest is calculated at the prescribed interest rates found at:

www.cra-arc.gc.ca/tx/fq/ntrst_rts/menu-eng.html

Penalties may be assessed by CRA for any late filings. For more information on penalties and interest, visit CRA's website at:

www.cra-arc.gc.ca/tx/ndvdls/tpcs/ncm-tx/ntrst/menu-eng.html

For information on avoiding penalties visit CRA's website at:

www.cra-arc.gc.ca/tx/bsnss/tpcs/crprtns/pymnts/pnlts/menu-eng.html?=slnk

Salary (Management Fee) vs. Dividends

There are two methods of paying the shareholder's income from the corporation. You can take your earnings out of the company by receiving a salary (management fee) or a dividend. If you are taking a salary, payroll taxes must be withheld and remitted by the corporation monthly on the salary you are paid. Your gross salary and tax withholdings are reported to you each calendar year on a T4 which you then report on your personal income tax return. If you take a management fee the management fee must follow normal commercial terms for payment of invoices and is usually paid to a related resident or non-resident corporation for services rendered. The management fees (generally paid to a related corporation) are reported on a T4A (special type of T4 described below) or on specific schedule of the T2. The shareholder's salary and withholdings are a deduction or expense for the corporation and the corporation is taxed on profits after these expenses.

Because corporate tax rates are declining, it is becoming more advantageous for shareholders to take their earnings out of the company by receiving a dividend. Dividends are reported on a T5 (see below) each calendar year. The corporation is taxed on its income level before distributing the dividends to the shareholders. If it is an individual shareholder a dividend tax credit to reflect the tax paid at the corporate level is also acknowledged. The dividend and dividend tax credit are each included on the T5 issued to the shareholder. The shareholder reports the amounts on their T5 when they file their personal income tax return. If it is a connected (this is a tax term for owning 10% or more) corporate shareholder the dividend is generally transferred tax free. This "free" transfer is not "free" when there is a Canadian company owned by a non-resident company. There is often a withholding tax on this dividend. The rates vary but a common rate is 5%. This extra 5% can make it important to really compare and contrast the results of paying salaries or management fees to non-resident owners as compared to paying them dividends.

T3

The third type of tax return filing is called a trust tax return or a T3. If you have created a trust for advanced corporate structuring, or to protect your family assets; you will need to file a T3. Filing of trust returns are due 90 days after year end (almost all trusts have December year ends). Trust taxes are due by instalments during the year.

T4

The fourth type of tax return reports payroll and other payments to employees and subcontractors. There are various subcategories but the most common are T4's and T4A's. These are always on a calendar year basis.

T5

The fifth type of tax return is an investment income information return or a T5. This reports investment income. For example, the dividends described above are considered investment income and are reported on a T5.

There are various other returns for partnerships and other reporting. The returns are interconnected. Thus the employee income on a T4 will reconcile with the employment salary expense on a T2, and the same T4 will reconcile with employment income on a T1.

<u>Payments to CRA</u>

There are four major ways of making remittances to CRA.

- My Payment: This is a payment option that allows individuals and businesses to make payments online, using CRA's website, from an account at a participating Canadian financial institution. At this time there are four banks participating in this program. For more information see My Payment on the CRA website.

- Electronically: You may be able to pay electronically through your Canadian financial institution's telephone or internet banking services. In addition, most financial institutions allow you to schedule future payments. For more information, see electronic payments on the CRA website or contact your financial institution.

- At your financial institution: You can make your payment, free of charge. Give the teller your completed Form RC160, **Interim Payments Remittance Voucher**. The teller will detach the bottom part, then date stamp and return the top part to you as a receipt. You must use the original form. Financial institutions cannot accept photocopies.

- By mail: You can mail a cheque or money order to CRA payable to the Receiver General. CRA does not consider a postmark date as the date that they receive your remittance. The date used is the actual date they receive it. CRA does accept post-dated cheques.

Sales and Value Added Taxes

In Canada there are both provincial sales taxes and federal sales taxes. If your business or business group sells more than the $30,000 annual sales threshold, you must register for a GST/HST number unless your business is GST/HST exempt (see link below). The GST is considered a type of Value Added Tax.

http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/menu-eng.html

GST (Goods and Services Tax)

GST is a federal tax that applies to the supply of most property and services in Canada. GST is currently 5%. Very few sales or supplies are exempt from GST. Notable industries that sell items exempt from GST are healthcare and banking. Also the GST rate is zero on basic food items.

HST (Harmonized Sales Tax)

Nova Scotia, New Brunswick, Ontario, Newfoundland and Labrador and Prince Edward Island have harmonized their provincial retail sales tax with the GST to implement the HST. Generally, HST is charged on the same items as GST. For a list of GST/HST rates by province please visit:

www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/rts-eng.html

Your business number issued by CRA registers your business to charge GST/HST. You will be required to file regular (typically quarterly) GST/HST returns reporting your total sales, the GST/HST charged and the GST/HST you paid on purchases of business expenses (or your input tax credits ITC's). The net difference is then payable or refundable to/from the government of Canada.

PST (Provincial Sales Tax)

Of the provinces that have not harmonized their sales taxes British Columbia, Saskatchewan, and Manitoba have provincial sales tax in addition to the GST (Quebec's tax is dealt with separately below). British Columbia charges 7% PST, Saskatchewan charges 5% PST, and Manitoba charges 8% PST. The need to register your business for a PST number is determined by the type of business conducted. The filing frequency assigned to a business when they register is typically monthly. For information on determining whether or not you need to register for PST and how to register, contact the appropriate province's PST website.

QST (Quebec Sales Tax)

The Quebec sales tax is currently charged at 9.975%. Similar to the GST, some items are zero rated such as groceries and prescription drugs which means the QST rate is 0%. Other items are tax exempt such as health services and long-term residential leases which means that GST and QST are not charged. Your business must register to charge QST if:

- A small supplier of goods and services with total worldwide sales over $30,000 in a quarter.
- A person offering a taxi or limousine service.
- A public service body with total worldwide sales over $50,000 in a quarter.
- A non resident of Quebec that charges admission directly to the public for activities or events held in Quebec.

If registered you will need to file regular QST returns. The QST you have paid on business expenses is reimbursed in the form of Input Tax Refunds or ITR’s (similar to GST ITC’s).

Labour Rules

Employment Insurance (EI)

EI provides benefits primarily to those who have lost their job. Benefits are also offered to cover maternity, parental, sickness or compassionate care leave. For an employee to be eligible for EI:

- They must not have been responsible for the loss of employment. In other words they cannot have quit, been fired for misconduct, or unemployed because they are directly participating in a labour dispute such as a strike.

- They must have worked a set number of hours, between 420 and 700, in the 52 week period immediately before the loss of employment. The number of hours you need to qualify will depend on the regional rate of unemployment. Thus in different parts of the country different requirements may exist. If they have never worked before or are re-entering the work force after an absence of two years they will need to accumulate at least 910 hours.

The actual benefit generally received is 55% of their weekly average earnings up to a maximum of $514 per week for 2014. Benefits are paid bi-weekly and commence after a two week waiting period. However, the first payment will not be made until 28 days after a claim has been filed.

Workers' Compensation Board (WCB)

WCB is basically employer insurance to cover injuries suffered by workers while conducting their occupation. It is an accident insurance program.

Each province and territory in Canada has its own Workers' Compensation Board, supported by a provincial Workers' Compensation Act. This gives workers the right to compensation for injuries incurred on the job and gives employers immunity from lawsuits filed by injured employees.

Funding is by the employers, not the government. They are charged a certain dollar amount per $100 of payroll. The exact calculations will vary province by province, but will depend on the industry classification as well as the employers' track record. The more risky a profession is and the more claims a company has, the higher the premium.

The premiums are pooled in a fund and go towards providing wage loss, medical aid, permanent disability, dependency benefits and rehabilitation services to workers injured on the job and administration of the fund.

For further information:

Association of Workers' Compensation Boards of Canada: www.awcbc.org/en/

Canadian Pension Plan (CPP)

CPP is a government run defined contribution benefit plan. It is available to all who have worked in Canada and is funded by employee and employer contributions. Benefits can be received for; retirement pension, post-retirement benefit, disability benefits and survivor benefits.

Contributions to the plan start when an individual is 18 and is calculated each year on pensionable earnings. For 2014 this is between $3,500 and $52,500. Both employees and employers contribute at a rate of 4.95% of pensionable earnings deducted at source. In 2014 the maximum total contributions per person will be employee of $2,425.50 and employer matching of $2,425.50 for a total of $4,851.

An individual's annual contributions are recorded so that the correct benefit can be calculated when they retire.

The government takes this money and invests it. The income earned on these investments is added to the CPP pool.

The amount of benefit that an individual can claim will depend on the number of years they contributed to CPP and the level of their contributions. The maximum pension in 2014 is $12,460 per year. The benefits are designed to replace 25% of a person's earnings up to the maximum pensionable earnings level.

Normally CPP is paid when an individual reaches 65 and applies for it, but they can claim it as early as 60 or as late as 70. The amount of pension an individual claims will be adjusted by early or late retirement.

The costs of administering the plan are covered by the contributions and investment income earned by the plan.

Quebec has its own version of CPP – Quebec Pension Plan (QPP). Payment into CPP or QPP will depend on where an individual works, not where they live, and it is possible to have paid into both plans. An individual can only claim benefits from one plan but the amount of benefits is calculated according to their contributions to both plans.

In addition to the retirement benefit, the plan also offers other benefits such as disability benefits, death benefits, survivor's pension and children's benefit.

More information can be found at:

www.servicecanada.gc.ca/eng/sc/cpp/retirement/canadapension.shtml

Unions

As with many industrial developed nations Canada recognizes that the ability to organize trade unions is a fundament human right in accordance with the Universal Declaration of Human Rights. To this extent Canadian workers are legally permitted to form unions.

According to the 2009 Union Membership in Canada survey conducted by Human Resources and Skills Development Canada, over 4.6 million workers were members of a union. This accounts for about 30% of the non-agricultural paid workforce. Since 1999 this represents a membership increase of 600,000 but a percentage decline of non-agricultural paid workers of just under 3%.

The largest unions by membership are as follows:

- Canadian Union of Public Employees
- National Union of Public and General Employees
- United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union
- United Food and Commercial Workers Union
- National Automobile, Aerospace, Transportation and General Workers Union of Canada
- Public Service Alliance Canada
- Communications, Energy and Paperworkers Union of Canada
- Federation de la Sante et des Services
- Teamsters Canada

The employment standards, working conditions, hours, training, health and safety, and pay scales are handled by collective bargaining agreements. These agreements are usually negotiated for set periods of time, averaging about three years, but can be longer.

The union may negotiate with a single employer or a federation of businesses.

Failure to successfully negotiate an agreement may result in a strike by the workers or a lockout by the employers. There are various rules that guide who can strike and when and how the strike is to be conducted.

Labour relations will vary depending on industry, geography and economic conditions.

Employment Standards

90% of the Canadian workforce is covered by provincial or territorial labour laws and these fall under the provincial or territorial ministry of labour.

Only 10% of the workforce is federally regulated under the Canada Labour Code and covers banking, public transportation such as airlines and railways, and radio and television broadcasting.

Minimum Age for Employment

The employment of children subject to compulsory school attendance is severely limited during school hours. Consequently all provinces impose restrictions on the age of employment, but will vary by jurisdiction. For example, in BC written consent from a parent or guardian is required for children between 12 and 14 to work, while in New Brunswick the legislation stipulates that children under the age of 14 cannot be employed in certain types of employment.

Minimum Wages

To protect non-unionized workers in unskilled jobs all provinces have enacted minimum wages to provide a fair basic wage, which currently ranges from $9.95 per hour in Alberta to $11.00 per hour in Nunavut and Ontario. The minimum wage in BC is $10.25 per hour.

Hours of Work, Overtime, Meal and Other Breaks

There are two basic concepts to consider when understanding hours legislation; the standard work week and the maximum work week. Most legislation recognizes that it is up to the employer to determine the working hours of their labour force, providing they stay within certain legislative limits. This will vary greatly province by province. In many jurisdictions, there is regulation of the permitted hours of work, while in some others, there is little; in many there is a large number of exceptions to the rules on hours of work, while in others, there are few exceptions.

Overtime is paid once the standard hours in a day or a week have been exceeded, and there is a maximum number of hours per day or week that an employee cannot exceed. The overtime rate is payable to employees for each hour or part hour they work in excess of the standard hours. In most cases this works out at 1-½ times regular rate of pay, but again each jurisdiction can have its own rules.

Most jurisdictions entitle an employee to a meal break of at least ½ hour after each period of five consecutive hours of work, which is usually unpaid.

Equal Pay

Nationwide, it is not permitted to pay different rates to different genders for doing the same work. Furthermore, under the Canadian Human Rights Act employers are prohibited from discriminating between employees on the basis of race, national or ethnic origin, colour, religion, age, sex, sexual orientation, marital status, family status, disability and conviction for which a pardon has been granted.

Statutory Holidays

These are days of special significance that are used to commemorate or celebrate certain events of national or regional importance. The number of statutory holidays will vary between jurisdictions and may include the following: (As an example we have noted (BC) beside statutory holidays in British Columbia.)

- New Year's Day (BC)
- Good Friday (BC)
- Easter Monday
- Canada Day (BC)
- Labour Day (BC)
- Christmas Day (BC)
- Victoria Day (BC)
- National Patriots Day
- Thanksgiving (BC)
- First Monday in August (BC)
- Remembrance Day (BC)
- Boxing Day
- Family Day (BC)
- National Aboriginal Day
- St. John the Baptist's Day
- Discovery Day

Although entitled to take the day off with pay, employees generally cannot refuse to work on a statutory holiday if asked by their employer. However, if an employee does work they are usually compensated a premium rate of pay for doing so or another day off with pay instead.

If a statutory holiday falls on a non-working day such as a weekend then generally the employee gets another day off.

Again the exact provisions for holiday pay will vary by jurisdiction.

Annual Vacations with Pay

Across the country the minimum is two weeks, except for Saskatchewan where it is three weeks. In many provinces the minimum is increased by one week after five consecutive years of employment with the same employer.

Termination of Employment

All jurisdictions require an employer to give notice to the employee that they are being terminated for operational or economic reasons. Employers can give pay in lieu of notice or require the employee to work their notice period.

The amount of notice will depend on the length of service and usually the employee must have worked at least three months to be entitled to a notice period. This notice period gets longer if the employer is conducting a group termination.

Employees can be laid off rather than terminated, especially in situations where work is in short supply. There is a distinction between temporary layoff and permanent termination. Generally if the layoff exceeds 13 weeks then the employee has been terminated.

The Canada Labour Code also provides for severance pay to employees who have 12 months service or more.

Other related leave includes:

- Bereavement leave – varies from one day to one week.
- Maternity leave – generally one year.
- Family responsibility leave – short term period of unpaid leave to allow employees to deal with specific family responsibilities or emergencies.
- Sick leave – currently provided in six jurisdictions and is unpaid. The number of days will vary. In addition, some jurisdictions protect against dismissal, suspension or transfer because of an absence due to illness or accident.

Mandatory Retirement

With the exception of specific occupations there is no mandatory retirement age. Forcing an employee to retire on the basis of age is considered to be a Human Rights issue. However, individual provinces do have differing provisions with respect to retirement and some provinces allow individual businesses to have mandatory retirement ages as long as they are consistently applied.

Foreigners Working in Canada

Canada welcomes over 150,000 foreign workers each year to temporarily work in areas where there are skill shortages.

In most cases, to work in Canada on a temporary basis a work permit is required and if you are from a country that requires a visa to visit Canada you must also have a temporary Resident Visa.

In many cases you must already have a job offer from a Canadian employer, have completed an application to show that you have met the requirements of the Immigration and Refugee Protection Act and have written confirmation from Human Resources Development Canada that the employer can hire you.

In addition you must satisfy a visa officer that you will leave Canada upon expiry of the permit, have sufficient money to support yourself and any dependants during your stay, have no criminal record, demonstrate you are not a security risk and be in good health.

There are some professions that do not require a work permit for specific purposes or if they are covered by other legislation. These include:

- Athletes and coaches
- Business visitors
- Clergy
- Military personnel
- Public speakers
- Performing artists
- News reporters

Generally staff coming to Canada to perform temporary services while employed for an employer that has a tax treaty with Canada will find entry to Canada easy. The implementation of the North America Free Trade Agreement "NAFTA" and the North American Agreement on Labour Cooperation "NAALC" is to thank for this. However, staff coming for extended periods will find that work permits are required.

While in Canada you will be expected to abide by Canadian law and will be subject to Canadian taxes on any income earned in Canada.

Further information can be found at:

www.servicecanada.gc.ca/eng/audiences/newcomers/

Medical System

Canada's national health insurance program, often referred to as "Medicare", is designed to ensure that all residents have reasonable access to medically necessary hospital and physician services, on a prepaid basis. Instead of having a single national plan, we have a national program that is composed of 13 interlocking provincial and territorial health insurance plans, all of which share certain common features and basic standards of coverage. Framed by the Canada Health Act, the principles governing our healthcare system are symbols of the underlying Canadian values of equality and solidarity.

Since provincial healthcare plans provide only a basic level of service, individuals and employers sometimes purchase additional private coverage for more extensive coverage for such items as prescription drugs, dental care, vision care and other medical upgrades.

Accounting Regulations and Standards

Institutes

In 2014 the various professional accounting bodies operating in Canada unified under the Chartered Professional Accountants (CPA) banner. CPA Canada provides services to all CPA, Chartered Accountants (CA), Certified General Accountants (CGA) and Certified Management Accountants (CMA).

Currently anyone can call themselves an accountant in Canada, but only Chartered Professional Accountants can call themselves CPA's.

Standards

CPA Canada establishes standards and guidance of accounting, auditing and assurance standards in Canada through the Accounting Standards Board (AcSB) for financial reporting by all Canadian entities outside the public sector.

Financial reporting for publicly accountable entities and government business enterprises is governed by International Financial Reporting Standards (IFRS). These are issued by the International Accounting Standards Board and the AcSB contributes to the development of these standards. Prior to 2011 financial reporting in Canada was under Canadian Generally Accepted Accounting Principles. The reason for the change is as a response to the demands of an increasingly global business environment. IFRS has been adopted by over 100 countries including the European Union and many of the Pacific Rim countries.

Non-publicly accountable enterprises may report under IFRS, but can also report under Accounting Standards for Private Enterprises (ASPE). ASPE was developed from a lengthy consultation process that ensured that private enterprises of all sizes across Canada were able to provide input into the standard-setting process. The majority of businesses in Canada are Owner Managed and the AcSB recognized that their needs differed significantly to publically accountable companies. These standards were developed from Canadian GAAP and represent a simplification of the standards that had to be complied with pre IFRS.

The AcSB is also examining and developing a further set of standards covering Not-For-Profit Organizations, Pension Plans and Public Sector entities.

Financial Statements

There are three distinct reporting levels for companies when filing financial statements. The level of work and reporting requirements are governed by Generally Accepted Auditing Standards (GAAS):

<u>Notice to Reader (NTR)</u>

This is the most basic type of report and is a compilation of financial information provided by the client. There is no verification or examination of the numbers presented in the statements by the preparer. As no assurance is provided under an NTR it does not have to comply with any form of GAAP, IFRS or ASPE. Therefore, the quality and basis of presentation of these financial statements will vary widely.

NTR's are most common when an entity has no financing requirements and is privately owned. The main use of NTR's is for accompaniment with filing of corporate tax returns.

They are also the cheapest form of statements to prepare.

<u>Review Engagement</u>

This is the intermediate level of reporting. Work is limited to observation, analysis and discussion. Assurance is provided in the form of a negative opinion – nothing comes to our attention. As assurance is provided the financial statements have to comply with GAAP, either ASPE or IFRS.

Reviews are commonly prepared when low to medium level of financing is provided to the entity.

<u>Audit Engagement</u>

This is the highest level of reporting and also the most expensive to produce.

Work comprises of extensive testing such as sampling, system documentation, controls, analytical review, confirmation, and verification of every number in the financial statements. Assurance is provided in the form of a positive opinion – we have not found anything. As assurance is provided the financial statements have to comply with GAAP, either ASPE or IFRS.

Audits are prepared for all publicly accountable enterprises and private enterprises with a high level of financing.

Assets and Intellectual Property

Depreciation for Tax Purposes

Canada's taxation system recognizes financial accounting as the basis for numbers for tax calculations. However, there are some calculations that are unique to the tax rules and thus every company must make a reconciliation between profit for accounting purposes and profit for tax purposes. Common adjustments are depreciation versus "Capital Cost Allowance" (CCA) and gain/loss on sale versus tax asset write-off or recapture of previously claimed deductions. CCA is the tax system's equivalent to depreciation or amortization.

Intangible Assets: Trademarks/Patents and Goodwill

One type of asset that frequently appears in foreign owned Canadian businesses is intellectual property or goodwill or both. These can be imported or they can be aquired on purchase. The tax treatment and the legal treatment of these are important considerations when businesses do business in Canada. The deductibility of the goodwill and/or the opportunity to pay a royalty are important tax issues.

Scientific Research and Experimental Development (SR&ED)

Canada has a strong system of tax incentives to support expenditures on SR&ED. This is an integrated federal/proivincal program. It is a post pay system, meaning that it is paid after the fact based on an application and evidence of expenditure on qualified expenses. The system favors Canadian owned businesses but is available to foreign owned businesses. The rates of refund are changing. As of 2014 it can be up to 64% refund on expenses, however, foreign owned companies max out at 36% refund.

Royalties

Royalties for Intellectual Property (IP) are a common form of compensating inventors or non-resident owners for IP used in Canada. Tax treaties and transfer pricing apply to royalty payments.

International Commerce

International Tax Treaties

Understanding how your business will be taxed when it does business in Canada and in other parts of the world requires a clear understanding of tax treaties. Canada has an extensive number of International tax treaties. These tax treaties contain specific provisions to mitigate double taxation. It also has Tax Information Exchange Agreements (TIEA) with nations that it does not have treaties with. These also can result in mitigation of double taxation, because Canada has the policy of allowing foreign tax credits when there is either a tax treaty or tax information exchange agreement.

The longest and most complex tax treaty is between Canada and the United States. This makes historic sense since the two nations share the longest undefended border in the world and trade extensively with each other.

We at Gilmour Knotts, Chartered Accountants can help you navigate the tax rules. Here is our top five list of items a non-resident coming to Canada to do business should know.

Regulations 105 and 102

Canadian tax authorities can charge a refundable withholding tax on services sold into Canada. This "Regulation 105" tax is not the final tax due, but instead an instalment payment. The withholding tax can catch foreign businesses and Canadian resident payers by surprise. Here is the general conceptual framework. Canada Revenue Agency can charge tax on all business conducted in Canadian borders whether by residents or non-residents. This tax is charged to ensure that non-residents pay their share. The tax is often refunded when the appropriate treaty is consulted. Some but not all treaties exempt income from small scale non-resident businesses from tax. As well, Canadian tax rules allow deductions that will significantly reduce the taxable income to less than the amount the initial withholding was calculated upon. There are also waivers that can be filed up front to prevent tax from being withheld. Regulation 102 is similar to 105 but is for non-resident employees.

HST

We covered an overview of this early in this booklet. The impact on foreign owned companies is often related to importing and exporting items with no tax or getting a net zero tax. Imports have unique rules that either act to charge or sometimes double charge HST on the way into Canada. Exports are typically exempt from HST which means tax savings for the customers and less net tax for the company to remit. The challenges that can relate to this include clear documentation of export.

Thin Capitalization

There is a requirement for investment by non-residents in Canada to be well capitalized. This is to prevent profits from being exported from Canada by overzealous interest charges. The ratio is 1 to 1.5. Meaning that for each dollar of non-interest bearing equity you are allowed to have a dollar fifty of interest bearing loans from your foreign parent company to your new Canadian company.

Tax Holidays

There are a few bona fide tax holidays to encourage business investment in Canada. For example see Advantage BC on the following page. There are also personal tax holidays. These change from time to time so please check with us before trying to work with a tax holiday.

Forms

Many countries have tax treaties with Canada. These tax treaties significantly lower the tax withholdings when doing business in Canada. However, the reductions are not automatic and some forms, like the waivers for Regulation 105 mentioned above and basic registration for a taxpayer identification number or business number, are required before any reduction can be requested and granted.

What Incentives and Competition Can You Expect?

Generally Canadian governments allow and encourage competition between peers and non-resident companies to enter Canada and compete equally. Canadian government authorities do regulate Mega Deals. On a transaction count basis Mega Deals are a very small percentage of the deals in Canada. Most foreign companies operating in Canada compete on an even footing with Canadian companies.

There are some benefit programs that are either tilted towards or away from foreign competitors though if you look at them from a business perspective.

Some examples are:

IrB (Industrial and Regional Benefits) is a program to encourage foreign companies to return revenues earned in Canada by spending in Canada. Check out the industry Canada site www.ic.gc.ca/ and look up IRB.

The SR&ED program encourages spending on research and development and is open to both Canadian and foreign companies. The program does favour small Canadian companies but large Canadian companies and foreign companies operating in Canada have equal access. Check out www.cra-arc.gc.ca/txcrdt/sred-rsde/.

The EDC (Economic Development Corporation) is aimed at Canadian exporters but can help non-resident companies coming to Canada do business with Canadian residents. Check out www.edc.ca.

Advantage BC is a tax incentive program to encourage non-resident businesses to establish in the province of British Columbia. Check out www.advantagebc.ca.

Trade and Invest BC is an information source to get non-resident and Canadian resident businesses working together. Check out www.britishcolumbia.ca.

Conclusion

We welcome you to “the best place on earth” and look forward to working with you to establish your business in Canada. Please call 604-888-4200 or email us info@gilmour.ca.

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