
CANADA

***Business and
Taxation Guide***

Preface

This guide has been prepared by the Canadian member of

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This guide is intended as a general guide and should not be acted upon without further advice.

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1. *General information*

Attractions and drawbacks for foreign investors

Canada offers political and economic stability and an environment that is relatively free of crime and violence. The United Nations has ranked Canada as the number one country in the world in which to live for quality of life (1994 - 99). Because of its proximity and close business ties with the United States, many foreign investors find Canada an ideal 'window' on the U.S., particularly for monitoring direct investment in that country.

The Investment Canada Act of July 1985 encourages investment by both Canadians and non-Canadians that contributes to economic growth and employment opportunities.

The Act was amended in 1989 and in 1993 as a result of the Free Trade Agreement (FTA) between Canada and the United States, and under the North American Free Trade Agreement (NAFTA) between both countries and Mexico. NAFTA seeks to establish a free trade area among the three countries and provides for the gradual removal of virtually all tariffs, thereby improving and expanding the export opportunities for Canadian businesses.

Deregulation of Canada's financial industry has created new opportunities for foreign institutions by liberalizing the laws governing the activities of foreign banks and investment firms in Canada.

Area and population

Canada is the second largest country in the world. With an area of nearly ten million square kilometres, its boundaries reach from the Atlantic to the Pacific Oceans and from the Arctic to the border with the United States. Canada's vast territory offers a wide range of conditions, climate, topography, vegetation and resources.

Most of the population of 30 million live within 200 miles north of the U.S. border. The 1999 population figures for the eight largest cities are:

Toronto, Ontario	4,680,000
Montreal, Quebec	3,439,000
Vancouver, British Columbia	2,017,000
Ottawa, Ontario and Hull, Quebec	1,065,000
Calgary, Alberta	934,000
Edmonton, Alberta	929,000
Quebec City, Quebec	688,000

Winnipeg, Manitoba

678,000

Although people of British, French, or Native origin represent a large portion of the population, Canada also has significant communities of people from almost every country of the world. This cultural mix provides ample opportunity for individuals to reside in communities where they feel comfortable to live and raise a family.

Constitution and political structure

Canada has a federal government with ten provincial and three territorial governments which have strong powers to enact laws within the many spheres delegated to them. The provincial and territorial governments delegate legislative authority for some local or regional matters to a third, municipal, level of government. Thus a business may be subject to federal, provincial or territorial, and municipal laws. Each government's legislative authority is prescribed by the Constitution.

Economic structure

The economy operates on the basis of market demand as the main determinant of what goods should be produced. Market demand is, to a large extent, supplied by privately-controlled industry. However, certain industries considered vital to the country as a whole are government owned or regulated.

The strength of the economy is based on the country's enormous agricultural and fisheries output, and its production of minerals, oil, gas, forest products, and other natural resources. The manufacturing and service industries play an almost equally important role in the economy. Canada is one of the world's top ten industrial nations. Canada's high technology industries' growth has been rapid, fuelled by a highly-educated workforce.

The economy is also very conducive to starting small businesses. Over 90% of all registered businesses are small businesses with sales of less than \$2 million a year.

There is excellent potential for future growth of the economy. The historically lower Canadian dollar against the US dollar increases the demand for exports of goods and services to the United States, Canada's largest trading partner. The amount of trade with both the United States and Mexico has increased substantially due to the North American Free Trade Agreement.

Investment prospects are good. The investment environment is becoming more favourable due to deregulation in the financial industry as well as in the energy and transportation industries. In recent years the Canadian dollar has been relatively weak against other currencies, offering opportunities to

outsiders to invest in Canada at a cost that is low in relation to historical values.

The domestic market has a number of attractive features for the business person. Based on the 1996 census, the average annual income was \$25,196 per person in 1995. Most families have more than one income earner. The average total family income in 1998 was \$62,116.

Basis of legal code

The Province of Quebec follows a civil code approach to non-criminal matters. The rest of Canada generally follows the common-law tradition wherein legal principles are developed by judges applying legal precedents and statutes to specific facts on a case-by-case basis.

2. Regulation of foreign investment

There are no restrictions governing the transfer of funds into or out of Canada.

Government restrictions on investment are of two types: one of general application and the other applied to specific business sectors considered key to economic or cultural development. General application includes a review process for investments that are significant in size; they are required to supply minimal information and must be considered by the government within 45 days (subject to extension). If the investor is a WTO member, only general investments in excess of \$192 million are reviewable in 2000. Federal and Provincial laws may limit foreign participation in specific business sectors, including communications, broadcasting, transportation, publishing, fisheries, land, energy, and some financial services.

3. *Government incentives*

Financial assistance

The Federal and Provincial Governments encourage a continued increase in active investment in the Canadian economy. They offer a number of industrial and tax incentive programs to eligible businesses. Such incentives include cash grants, forgivable and repayable loans, loan guarantees, technical assistance and equity participation.

To obtain government assistance, a business should present a detailed, well-documented business plan. This plan should demonstrate that the proposal meets the eligibility requirements of the particular government assistance program under which it is applying.

Investment incentives

Over one hundred different incentive programs are offered to Canadian businesses by the Federal and Provincial Governments. Some of the more popular ones are:

- **Export Development Corporation:** This crown corporation provides various forms of assistance to businesses including insurance of export business risks and financing for customers of Canadian exporters. The program is designed to stimulate activity in developing and increasing an export market for Canadian goods and services.
- **The Canadian Small Business Financing Program:** This is designed to help small businesses obtain term business-improvement loans to finance the purchase or improvement of fixed assets for new or expanded operations. Under this program, the Federal government guarantees loans of up to \$250,000 to eligible businesses with annual sales not exceeding \$5 million.
- **The Business Immigration Program:** This provides the means of admitting qualified business persons to Canada on the basis of their willingness to invest their capital in Canadian business ventures. Under this program, immigrant investors must have a net worth of at least \$800,000 and must invest \$400,000 through the Federal government for a period of five years. Immigrant entrepreneurs are not subject to net worth criteria but must establish or purchase and manage a substantial business in Canada
- **The Western Diversification Program:** This is a Federal program set up to promote and assist economic and industrial development in western Canada by means of a Western Economic Diversification Fund. This program provides financing and information services to

small and medium-sized businesses, targeting emerging, high growth areas.

- The Atlantic Canada Opportunities Agency: This is a Federal government agency mandated to provide assistance to small and medium-sized businesses in Atlantic Canada to start up, expand, modernize and become more competitive. Interest-free, unsecured financing is provided for eligible costs.

Numerous other programs are available, some geographically based. When applying for government assistance, it is important to understand thoroughly the requirements under each specific program and to provide the government with a documented well-designed proposal.

To obtain government financing successfully it is often necessary to use the services of an experienced consultant or business advisor. Anyone starting a new business is expected to comply with business regulations, registrations, business practices, tax obligations, licence requirements, labour regulations and other business policy and practice requirements.

4. Business organizations available to foreigners

Several forms of business entity are recognised, including:

- the corporation;
- the partnership; and
- the sole proprietorship.

Corporation

The use of a corporation provides several advantages to an investor:

- Shareholder's liability is generally limited to the extent of the capital contribution.
- A corporation has a perpetual existence.
- The incorporation, organization and operation of a corporation is relatively simple and straightforward.
- It is often easier to obtain financing and regulatory approvals through a corporation resident in Canada.
- In many cases, a local corporation can achieve greater market presence and identification.

Partnership

A partnership is a contractual agreement between two or more persons to carry on a jointly-run business. Great flexibility exists in setting the terms of a partnership agreement.

Division of partnership profits and losses is made according to the terms of the partnership agreement. No minimum capital contribution may be required, and it is not unusual for one partner to contribute capital and another to contribute only services.

There are two types of partnerships: general and limited. Every general partner is jointly and severally liable for partnership debts. Limited partners are not liable beyond the extent of their capital contribution to the partnership. A limited partner may not take part in the management of the partnership. A limited partnership must have at least one general partner who manages the partnership and whose liability is unlimited.

Limited partnership agreements must generally be recorded with the government of the province in which the partnership was formed. Limited partnership interests are ordinarily acquired as investments. A limited

partnership is often used as a financing entity for a business where significant tax losses in initial years can be allocated to limited partners.

Sole proprietorship

A sole proprietorship is a business, usually small, owned and operated by a single individual. Management and control of the proprietorship stems entirely from the owner or his designated agent.

The liability of the owner is both unshared and unlimited, and, consequently, available credit for the business is directly tied to the owner's personal wealth. Profits of the business are taxed directly to the owner.

Any individual, regardless of citizenship and residency, may be a sole proprietor. The proprietorship terminates upon the cessation of the business activity and disposal of assets as well as on the death of the proprietor.

5. Setting up and running business organizations

Legal requirements

Corporation

Incorporation under the Canada Business Corporations Act or a provincial incorporating statute is a simple process involving the filing of articles of incorporation and the payment of a fee to the appropriate government authority. Most businesses which plan to operate in only one province are incorporated under provincial legislation.

The steps involved are briefly:

- select a name and obtain approval to use that name (numbers are often used);
- indicate the municipality or geographic township within the province and the address where the registered office is to be;
- state the classes and any maximum number of shares that the corporation is authorized to issue;
- state the number of directors, and for each director (i) the full name and address of the director, and (ii) whether the director is a Canadian citizen; and
- maintain corporate books and records, and adequate accounting records.

The cost of provincial incorporation, including legal fees, can be less than \$1,000.

Partnerships

No formal written agreement is necessary to establish a partnership; however, it is generally recommended that an agreement be completed. Under normal circumstances, there is no limit to each partner's personal liability. However, limited partnership arrangements can be structured where liability is assigned to one or more general partners. There are no significant formalities or regulations governing how the business is to be conducted.

Sole proprietorship

Any individual (other than an undischarged bankrupt) may start a business but is wholly responsible for all its debts.

Minimum capital

The law does not specify minimum capital requirements to start a business as a sole proprietorship, partnership or corporation.

Work permits for staff

As a general rule, only Canadian citizens, persons admitted to Canada as permanent residents (those who have obtained landed immigrant status) and foreigners who hold valid employment authorizations (for a set period of time) may be employed. Under the North American Free Trade Agreement, special provisions have been made for temporary entry for business persons and intra-company transfers of executives. This agreement provides free access for Canadian, American and Mexican business travellers to each other's markets in order to facilitate trade in professional and commercial services.

The use of Canadian labour is strongly encouraged and to this end the Immigration Department issue work visas only to those persons with specialized skills that are not generally available in the local workforce. Employers must demonstrate to the Immigration Department that they have unsuccessfully pursued all avenues to recruit specialists locally before work visas for visitors are issued.

Labour law

Compared to most European countries the union movement in Canada has been relatively moderate in its demands. Most major industries are unionized but a notable exception is oil and gas exploration. Many aspects of labour law fall within provincial jurisdiction. Some provinces have passed legislation to make it easier to set up non-union operations, particularly in the construction industry.

Federal and provincial labour laws prescribe the minimum standards concerning wages, work conditions, hours of work, overtime pay, paid holidays, vacation with pay, maternity leave and individual and mass employment terminations. These standards cannot be lowered by private contract or by a collective agreement with a union.

In addition, human rights legislation prohibits employment discrimination on such grounds as race, colour or gender. Other statutes deal with health and safety at work and with injuries on the job.

Corporations

Directors and other officials

Before incorporation, a list of the persons who have consented to act as directors must be filed according to the relevant Business Corporations Act. Officers may be appointed after incorporation. Some provinces require that a majority of directors be residents of that province.

Registered office

A corporation must at all times have a registered office in the municipality or geographic township within the province specified in its articles.

Auditors

All public corporations must appoint a qualified auditor to audit their financial records. Private corporations are also required to appoint auditors except in certain circumstances; for example, where all shareholders agree in writing not to do so, or where the corporation revenues are below a threshold amount.

Books, registers and share certificates

The secretary is required to acquire and maintain the various statutory records of the corporation.

Powers and duties of officials

The articles of incorporation and bylaws of a corporation set out the name of the corporation, where it is registered and the specific powers and duties of company officials; for example, the president, secretary and directors.

The president is the chief executive and operating officer of the corporation. The president is responsible for the general supervision of the business and the affairs of the corporation.

The secretary's responsibilities include the following:

- to maintain statutory registers;
- to organize and attend meetings of shareholders and directors;
- to ensure that accounting records are maintained;
- to supervise preparation of income tax returns and ensure that the corporation complies with Provincial and Federal taxing provisions; and
- to comply with the directives of the corporation and report results to them.

The shareholders annually elect the Board of Directors who oversee the overall operations of the corporation. It is common practice that the officers of the corporation are drawn from the ranks of the directors. They in turn may delegate their authority in whole or in part to employees or other persons.

The directors must present to the shareholders on an annual basis a financial report and a directors' report. The directors' report for public corporations is required to refer to specific areas of activity and to comment thereon.

6. Corporate taxation

Federal corporation tax

Resident corporations

Corporations resident in Canada at any time during the year are subject to income taxes on their world income during the period they are resident, with appropriate tax credits for any taxes paid or payable to foreign jurisdictions on income from sources outside Canada.

Corporations incorporated in Canada are generally deemed to be residents. If not incorporated in Canada, residence is wherever the central management and control of the corporation is located, subject to overriding provisions in double taxation agreements.

Rates of tax

Corporate tax rates vary depending upon the classification of a corporation as public or private. A public corporation is a corporation resident in Canada whose shares are listed on a Canadian stock exchange. A private corporation is one which is not controlled in any manner by a public corporation. One type of private corporation is a 'Canadian-controlled private corporation' which may not be controlled, either directly or indirectly, by non-residents or by public corporations.

The basic federal corporate tax rate in 2000 is 38% of taxable income and is normally reduced by 10% of taxable income earned in a province to compensate for provincial taxes. The government proposes to reduce this rate to 37% in 2001 and to 31% by 2006. A corporation is also subject to provincial tax depending upon where it carries on business (see Provincial Income Taxes).

Taxable income is calculated by adjusting financial statement net income for certain non-taxable income, non-allowable expenses and for certain specific deductions.

Specific income tax incentives promote investments in certain segments of the economy; these include the small business rate, and manufacturing and processing tax credit. Corporations are eligible for the reduced small business tax rate on the first \$200,000 of active business income annually only if they are Canadian-controlled private corporations having less than \$10 million of taxable capital. A corporation owned 50% by Canadian residents and 50% by non-residents could qualify for this lower small business rate. If the corporation is a member of an associated group, the

\$200,000 must be shared among the members of the group. A surtax applying to all corporations increases the tax rate by 1.12%. An additional surtax applies to the investment income of Canadian-controlled private corporations.

The approximate 2000 federal tax rates after applicable incentives are as follows:

	<i>Manufacturing and processing income</i>	<i>Other business income</i>	<i>Other income</i>
Eligible for small business tax rate	13%	13%	29%
Not eligible for small business tax rate	22%	29%	29%

Provincial taxes are in addition to these amounts.

Capital cost allowance

In computing taxable income, a deduction for depreciation of capital assets is allowed by way of 'capital cost allowance' which may differ from depreciation calculated for accounting purposes. An allowance may be claimed from the year an asset is acquired and is considered available for use until the year in which the asset is retired, but for the first year the amount allowed is only one-half of the rate otherwise calculated. The allowance is computed for each pool of assets in a particular class, not for each individual asset.

The following are capital cost allowance rates, calculated on a declining balance basis, for some of the more common classes of assets:

	<i>Rate</i>
Buildings	4%
Automotive equipment	30%
Computer hardware	30%
Manufacturing or processing equipment	30%
Other machinery and equipment	20%
Computer software (applications)	100%

Losses

Losses are categorized as non-capital losses, net capital losses, and allowable business investment losses.

Non-capital losses include losses from business and property. They are deducted against income from all sources in the year and if unused may be carried back three years and forward seven years.

Net capital losses are realised on the disposition of capital assets and are deductible only against capital gains. Only 2/3 of capital gains, net of capital

losses, realized in the year are taxable, so only 2/3 of unused capital losses can be carried back three years and forward indefinitely for application against capital gains.

Losses from the disposal of shares or debt of a small business corporation carrying on substantially all of its business in Canada are allowable business investment losses. 2/3 of these losses are deductible against all sources of income and can be carried back three years and forward seven years, after which any unapplied balance becomes a net capital loss.

Dividends

Generally all dividends received by a corporation must be included in income for tax purposes. However, certain dividends received from taxable Canadian corporations and foreign affiliates are deductible in arriving at taxable income. In addition, a private corporation may be subject to a special refundable tax on dividends received.

Investment tax credit

The investment tax credit (ITC) is an incentive to incur certain expenditures because it reduces federal income tax. The ITC is 20% of scientific research expenditure (35% for small businesses) and 10% of the cost of new equipment used in certain industries, such as manufacturing, located in prescribed areas of Canada (generally, the four Atlantic provinces).

An unused ITC can be carried back three years and forward ten years to reduce taxes. Small businesses may be eligible for 100% refund of ITCs relating to current expenditure for scientific research and a 40% refund of other ITCs.

Scientific research and development

In addition to an investment tax credit, qualifying scientific research and development current and capital expenditure made in Canada and current expenditure made outside Canada, net of any ITCs claimed, are 100% deductible in the year or any subsequent year.

Foreign tax credits

Corporations are allowed credits against Canadian taxes for taxes paid to foreign countries on income from foreign sources. The credit is limited to the Canadian tax which would otherwise be payable on that income. Any foreign taxes in excess of this limit may be deductible when computing taxable income in the year. Unused foreign business income tax credits may be carried forward seven years and back three years. Unused foreign non-business income tax credits may not be carried forward or back.

Payment of tax and filing a return

Each corporation resident in Canada and each non-resident corporation carrying on business in Canada is required to file a tax return within six months of its year-end.

Most corporations are required to pay monthly tax instalments equal to the lesser of their tax payable for the current year and their previous year's liability. The balance of tax is due two or three months (depending on the type of corporation) after the end of their taxation year.

Provincial income taxes

Each province imposes tax on the taxable income of a corporation earned in that province. Taxable income is allocated among provinces according to prescribed formulae generally dependent upon gross revenue earned and wages paid within each province in which the corporation has a permanent establishment.

The provincial income tax rates vary from 4.5% to 17% depending upon the nature of the income and classification of the corporation.

Many provinces offer their own tax incentives, such as small business rates, manufacturing and processing credits, venture capital investment incentives, resource royalty rebates and logging credits.

Capital taxes

In addition to income tax, corporations must pay a 'large corporations tax' of 0.225% of their taxable capital employed in Canada in excess of \$10 million. Taxable capital is defined as the total capital stock, retained earnings and indebtedness, with allowance for investments in other corporations. The large corporations tax is reduced by corporate income taxes but only to the extent of about 1% of taxable income.

Some provinces levy a separate capital tax on corporations with permanent establishments in a province. Depending on the province and the nature of the business, the tax ranges from 0.25% to 0.64% of taxable capital. Higher rates may apply to financial institutions. Taxable capital generally includes capital stock, retained earnings and indebtedness, with allowance for investments in other corporations. Provincial capital taxes are deductible in computing income for income tax purposes.

Non-residents

Corporations not resident in Canada are taxed at resident tax rates on certain income from Canadian sources including income from business carried on in

Canada and 2/3 of capital gains on the disposal of certain Canadian properties.

Certain payments to non-residents of Canada are subject to a flat 25% withholding tax which may be reduced under a double taxation agreement. Examples of payments on which this flat tax is levied include interest, dividends, rents, royalties and management fees.

Branch tax

A branch operation of a non-resident corporation carrying on business in Canada is taxed as if it were a resident corporation. It is also subject to an additional tax of 25% on branch profits, net of corporate income taxes, to the extent that the after-tax profits of the branch are not reinvested in Canada. Branch tax is intended to equate to the non-resident tax on dividends paid from a Canadian subsidiary to a foreign parent. In some cases, double taxation agreements provide for profit threshold exemptions and reduced branch tax rates. The branch tax may not apply to certain types of businesses, such as banks, transportation companies or communications companies.

Thin capitalization

Foreign investors are discouraged from providing financing to a Canadian subsidiary entirely through interest-bearing debt. Interest paid to a foreign parent on the portion of the debt exceeding three times the subsidiary's capital is not deductible by the corporation. Thus the ratio of related-party debt to equity should not normally be greater than 3 to 1 at any time. The government has proposed a reduction in the ratio to 2 to 1 for years that begin after 2000.

Summary of corporate taxes

The following table sets out the combined federal and provincial tax rates on corporate income for selected provinces. Although the tax rates in other provinces may vary somewhat, the combined taxes are generally similar.

	<i>British Columbia</i>	<i>Alberta</i>	<i>Ontario</i>	<i>Nova Scotia</i>
	%	%	%	%
Manufacturing and processing income				
– eligible for small business rate				
Federal	13.1	13.1	13.1	13.1
Provincial	<u>4.8</u>	<u>6.0</u>	<u>7.0</u>	<u>5.0</u>
Total	<u>17.9</u>	<u>19.1</u>	<u>20.1</u>	<u>18.1</u>
– not eligible for small business rate				
Federal	22.1	22.1	22.1	22.1

Provincial	<u>16.5</u>	<u>14.5</u>	<u>12.5</u>	<u>16.0</u>
Total	<u>38.6</u>	<u>36.6</u>	<u>34.6</u>	<u>38.1</u>

Other income

– eligible for small business rate

Federal	13.1	13.1	13.1	13.1
Provincial	<u>4.8</u>	<u>6.0</u>	<u>7.0</u>	<u>5.0</u>
Total	<u>17.9</u>	<u>19.1</u>	<u>20.1</u>	<u>18.1</u>

– not eligible for small business rate

Federal	29.1	29.1	29.1	29.1
Provincial	<u>16.5</u>	<u>15.5</u>	<u>14.5</u>	<u>16.0</u>
Total	<u>45.6</u>	<u>44.6</u>	<u>43.6</u>	<u>45.1</u>

Several provinces have proposed tax rate reductions for 2001 or subsequent years.

7. *Personal taxation*

Income tax

Individuals who are considered resident in Canada at any time of the year are subject to income tax on their world income while they are resident.

Individuals who ordinarily make their home in Canada are considered to be resident. As well, a resident of another country who stays in Canada temporarily for a period or periods aggregating more than 182 days in the year is deemed to be a resident of Canada for the entire year.

Generally immigrants and emigrants are taxed on world income earned in that part of the year in which they reside in Canada.

Rates of tax

Income tax is levied on an individual's taxable income for the calendar year. Federal tax is calculated by applying a graduated rate schedule to the amount of taxable income. Federal tax rates range from 17% to 29% with a surtax of 4% applied to basic federal tax in excess of \$18,500. The government proposes to eliminate the surtax by 2006.

Provincial taxes have traditionally been calculated as a percentage of the federal tax payable, except in Quebec. By 2001, most provinces will be computing taxes based on income. Most provinces also levy surtaxes which apply when income or tax exceeds certain thresholds. Several provinces also apply flat taxes.

Depending upon the province of residence, the top marginal combined federal and provincial tax rate ranges from about 43% to 52%.

The following table shows approximate combined federal and provincial taxes, including applicable surtaxes and flat taxes, at various levels of taxable income for selected provinces. Although tax rates in other provinces may vary somewhat, the combined rates are generally similar.

<i>Taxable income</i>	<i>British Columbia</i>	<i>Alberta</i>	<i>Ontario</i>	<i>Quebec</i>
\$	\$	\$	\$	\$
10,000	700	500	500	500
30,000	5,800	5,700	5,300	7,600
50,000	13,200	13,000	12,200	16,400
70,000	21,800	20,900	20,500	26,000

100,000	36,900	34,000	34,700	41,500
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Individuals may be subject to a combined minimum tax of about 25% regardless of their level of taxable income, depending on their sources of income and the nature of their deductions.

Taxable income

Taxable income is calculated as the total income of an individual from all sources less certain deductions. Total income includes amounts earned from such sources as employment, pensions, self-employment, rentals, as well as dividends, interest and taxable capital gains. Individuals may claim deductions for certain expenses including contributions to private pension plans, professional membership fees, and interest incurred to earn income.

The federal tax rates are applied to taxable income to calculate federal tax. Personal credits are then allowed as reductions in computing basic federal tax. Credits are adjusted each year for inflation.

Typical tax credits include:

Basic personal credit	\$1,229
Married credit	1,044
Age credit (65 and over)	600

Credits may also be claimed for tuition fees, charitable donations and medical expenses. The credit is generally restricted to 17% (up to 29% for charitable donations) of the expenses incurred. Some provincial taxes are calculated as a percentage of basic federal tax after personal credits. Provinces which compute taxes based on income have their own personal credits.

Capital gains

Capital gains (net of capital losses) realized on the disposal of capital property receive favourable tax treatment in that only 2/3 of the gain is taxable. Resident individuals are allowed a lifetime exemption from tax on the first \$500,000 of gains on farm property and shares of qualifying small business corporations. Gains arising on sales of owner-occupied dwellings by Canadian residents are exempt from tax.

Investment income

Dividends received from taxable Canadian corporations are taxed at lower rates than income from other sources. The maximum combined rate on such dividends ranges from 30% to 35%, depending upon the province of residence of the individual.

Tax returns and payment of tax

Employers are required to deduct taxes throughout the year on salaries and wages paid. Where an individual's total tax for the year and one of the two preceding years exceeds tax withheld by more than \$2,000, the individual is required to remit additional quarterly instalments. The tax return for a calendar year is due on or before April 30 of the following year. Any balance of taxes payable is also due by this date.

Partnerships

Partnerships are not considered taxable entities. Instead the partners (whether individuals or corporations) are taxed on their shares of partnership net profits. The calculation of partnership profits may be based on the calendar year or any 12-month period. Certain partnerships must use the calendar year. Partnerships that have more than five members must file annual information returns.

Non-residents

Non-resident individuals who carry on business in Canada, are employed in Canada or dispose of taxable Canadian property are subject to tax in Canada at resident tax rates. Certain amounts, for example interest or dividends, paid to non-residents will normally be subject to a 25% withholding tax which may be reduced by a double taxation agreement.

Social security

Under the Canada Pension Plan (CPP) or Quebec Pension Plan and the Employment Insurance Act (EI), an employer is required to withhold certain amounts from salaries paid to employees during the year in order to provide pensions and unemployment benefits. The employer also makes a contribution. Maximum required contributions by employers per employee are \$1,330 CPP and \$1,310 EI per year.

8. Double taxation agreements

Canada has entered into tax agreements with various countries to provide relief to persons who might otherwise be subject to tax both in Canada and in another country on the same income. Canada has agreements in force with 68 countries and another eight agreements have been signed but not yet ratified.

The agreements generally provide for the rights of each of the contracting countries to tax certain incomes, for example pensions, personal service income, and gains. They also generally provide for a reduction of the 25% flat withholding tax on payments such as interest, dividends, royalties and management fees.

Many of the agreements prescribe certain tests to ensure that a dual resident is deemed to be resident either in Canada or the other country but not both.

The following table illustrates the withholding tax rates under agreements. The actual withholding rates vary in certain situations. The agreement should be examined for the applicable rate on specific payments.

<i>Location of recipient</i>	<i>Withholding tax rate %</i>		
	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
Argentina	10/15	0/12.5	3/5/10/15
Australia	15	15	10
Austria	15	15	10
Bangladesh	15	15	10
Barbados	15	15	10
Belgium	15	15	10
Brazil	15/25	10/15	15/25
Cameroon	15	15	15
Chile	10/15	15	15
China	10/15	0/10	10
Croatia	5/15	10	10
Cyprus	15	15	10
Czech Republic	10/15	10	10
Denmark	5/10/15	10	10
Dominican Republic	18	18	18
Egypt	15	15/25	15
Estonia	5/15	0/10	10
Finland	10/15	10	10
France	5/10/15	0/10	0/10
Germany	15	0/15	10
Guyana	15	15	10

Hungary	5/10/15	10	10
Iceland	5/15	0/10	0/10
India	15/25	0/15	10/15/20
Indonesia	15	15	15
Ireland	0/15	15	0/15
Israel	15	15	15
Italy	15	0/15	0/10
Ivory Coast	15	15	10
Jamaica	15	15	10
Japan	10/15	0/10	10
Kazakhstan	5/15	10	10
Kenya	15/25	15	15
Korea (South)	15	0/15	15
Latvia	5/15	0/10	10
Lithuania	5/15	0/10	10
Luxembourg	5/10/15	15	0/10
Malaysia	15	15	15
Malta	15	15	15
Mexico	10/15	0/15	0/15
Morocco	15	15	5/10
Netherlands	5/10/15	0/10	0/10
New Zealand	15	15	15
Nigeria	12.5/15	12.5	12.5
Norway	15	15	0/10/15
Pakistan	15/20	25	15
Papua New Guinea	15	10	10
Philippines	15	15	10
Poland	15	15	10
Romania	15	15	10/15
Russian Federation	10/15	0/10	0/10
Singapore	15	15	15
Slovakia	10/15	10	10
South Africa	5/15	0/10	6/10
Spain	15	0/15	0/10
Sri Lanka	15	15	0/10
Sweden	5/10/15	0/10	0/10
Switzerland	5/10/15	0/10	0/10
Tanzania	20/25	0/15	20
Thailand	15	15	5/15
Trinidad & Tobago	5/15	10	0/10
Tunisia	15	0/15	15/20
Ukraine	5/15	0/10	10
United Kingdom	10/15	0/10	0/10
United States	5/10/15	0/10	0/10
Vietnam	5/10/15	0/10	10

Zambia	15	15	15
Zimbabwe	10/15	15	10

Agreements with the following countries have been signed but are not yet in force: Algeria, Bulgaria, Jordan, Kyrgyzstan, Lebanon, Luxembourg, Portugal and Uzbekistan. Protocols to amend the treaties with Austria and Japan have also been signed.

9. Other taxes

The federal and provincial governments levy various forms of taxes including capital taxes, sales and excise taxes, payroll taxes, customs duties and land transfer taxes. Municipalities also levy certain taxes such as business taxes and property taxes. Canada has no succession duties, death taxes, or gift taxes, although increases in market values of capital properties are subject to income tax on death or when property is gifted.

Goods and services tax and provincial sales tax

The federal goods and services tax (GST) is a 7% tax charged on the sale of most goods and services in Canada. Certain goods and services such as basic groceries, prescription drugs, medical devices, and residential rents are tax-free. The GST does not apply to the purchase of used residential property, dental and health services, most financial services, and most educational services.

From the consumer's perspective, the GST is similar to the retail sales tax. From the business perspective, the GST is collected at each stage in the production or distribution chain and is similar to a value-added tax. Businesses are eligible to claim full input tax credits for tax paid on their business purchases.

Provincial sales taxes, ranging from nil to 8%, in addition to GST, apply generally to the retail value of goods. New Brunswick, Nova Scotia and Newfoundland have combined GST with sales tax resulting in a GST rate of 15%.

Payroll taxes

Several provinces levy payroll taxes on employers. The rates vary from nil to 4.3%.

Land transfer tax

Some provinces levy a tax on the purchase or transfer of land situated in the province.

10. Portfolio investment for foreigners

There are virtually no restrictions on foreigners investing in Canadian stocks and shares or other property. Foreigners are not subject to any legal restrictions on buying, selling or renting land in most provinces. Some provinces do, however, impose higher land transfer taxes on purchases of farm and recreational land by non-residents.

11. Trusts

The residence of a trust for tax purposes is a question of fact. A trust is generally considered to have the residence of the trustee, executor, or other legal representative who manages the trust or controls its assets.

A trust is considered a taxable entity separate from the settlor or beneficiaries of the trust under federal and most provincial statutes and, unless created on death, is taxed at the top combined federal and provincial individual rate.

The taxable income of a trust is generally computed in the same manner as that of an individual. An additional deduction is allowed for income payable in the year to beneficiaries who are then subject to tax on this income. Payments of certain types of income by the trust, such as dividends and capital gains, retain the same character as in the trust when paid to the beneficiaries.

Non-resident trusts

Investment income earned by non-resident trusts with Canadian resident beneficiaries may be subject to tax in Canada. Effective in 2001, all non-resident trusts to which a Canadian resident has transferred or loaned property will be taxed as residents of Canada.

12. Practical information

Communications

Transportation is excellent by air, water, railway or road. Air travel is the most important means of passenger transport between the major centres. Many international airlines serve the larger cities while Canadian airlines provide excellent service to almost all centres of significant size.

Languages

The official languages are English and French. The Province of Quebec is primarily French speaking, while in the rest of Canada the predominant language is English. Many foreign languages are spoken.

Time relative to Greenwich Mean Time

Canada is divided into six time zones which are behind GMT as follows: Newfoundland 3½ hours, Atlantic 4 hours, Eastern 5 hours, Central 6 hours, Mountain 7 hours, and Pacific 8 hours.

To use daylight better, clocks (except in the province of Saskatchewan) are advanced one hour from the beginning of April to the end of October.

Business hours

Business in Canada is normally conducted during an eight-hour day between 8:00 a.m. and 5:00 p.m. with one hour for lunch. Most business offices are closed on Saturdays and Sundays. Retail operations are open Monday through Saturday, and in most provinces, Sunday as well.

Public holidays

The holidays observed by most business and government offices are:

New Year's Day	1 January
Family Day (Alberta only)	Third Monday in February
Good Friday	13 April 2001, 29 March 2002, 18 April 2003;
Victoria Day	Third Monday in May
St. Jean le Baptiste (Quebec only)	24 June
Canada Day	1 July

Civic Holiday (New Brunswick, Ontario, Saskatchewan, Alberta, British Columbia, Northwest Territories and Nunavut only)	First Monday in August
Discovery Day (Yukon only)	Third Monday in August
Labour Day	First Monday in September
Thanksgiving Day	Second Monday in October
Remembrance Day	11 November
Christmas Day	25 December
Boxing Day	26 December