DOING BUSINESS IN CANADA

2018

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MAZARS IN CANADA

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This document is intended for foreign businesses interested in doing business in Canada. Even though it briefly describes the business environment, certain legal aspects and the main tax measures to be taken into consideration when deciding to set up and operate a business in Canada, this document mainly focuses on the province of Québec.

CANADA

Area and Population

Canada is the second largest country in the world with nearly 10 million square kilometres (approximately 5,500 kilometres East to West and about 4,600 kilometres North to South). Its population is over 36 million, 90% of which live less than 200 kilometres from the U.S. border. Nearly half the population is concentrated within six large urbanized areas: Toronto, Montreal, Vancouver, Ottawa-Gatineau, Calgary and Edmonton. Canada is multicultural and its inhabitants enjoy a relatively high standard of living.

Canada has an elaborate communications system and a complete network of road, rail, maritime and air transport allowing for the delivery of goods and services over its entire territory.

Official Languages

Canada has two official languages: English and French. English is predominant everywhere except in Québec and certain other regions where French is the language most often spoken.

The federal government offers all of its services in both languages. As for the provinces, they sometimes offer certain services in only one of the two official languages. Québec has certain laws that promote the use of French, for example in commercial signs, product identification and education.

Government and Law

Canada is a confederation where the powers are shared between the federal government and the governments of the ten provinces and three territories. The British parliamentary system is used in both levels of government and each of these levels has the power to pass laws in their respective fields of jurisdiction, namely tax.

From a legal standpoint, the common law is used in all provinces except in the province of Québec, where the Civil Code, inspired by the Napoleonic Code, is used in matters of civil law. There are courts at the federal and provincial levels. Due to its strong institutions, Canada benefits from great credibility both on the North American and global scale.

Economy

Canada benefits from a free-market economy, except in the case of certain government controlled corporations, generally called "Crown corporations", present in the fields of energy production and transport, telecommunications and mail. Canada is prosperous; it is based on market economy and is considered the fifteenth largest economy in the world.

The Canadian economy is strong; it is fuelled both by SMEs and numerous multinational corporations. It has expanded namely as a result of the production and export of agricultural goods and natural resources such as potash, uranium, aluminum, cobalt, petroleum and forest produce. Its main trading partner is the United States.

Between 1990 and 2007, Canada had a period of strong economic growth during which the federal government showed several years of budgetary surplus. The 2008-2009 financial crisis halted this momentum due to the massive investment of public funds to stimulate the economy. In spite of this, the economic record remained positive and the Canadian banking system proves to be one of the most reliable in the world. Thanks to its natural resources, its modern infrastructures, its qualified labour as well as its stable political and economic system, Canada benefits from healthy economic prospects.

The cost of living in Canada is relatively low when compared with other developed countries. For example, the cost of energy, real estate, food and gas is significantly lower than it is in Europe.

Incentives and Restrictions for Foreign Investment

Foreign investment is generally encouraged as long as it contributes to the economic growth and the creation of jobs in Canada. The federal and provincial governments have set in place an array of programs and tax incentives aimed namely at encouraging investments in certain regions or industries. These programs can also be beneficial to foreign investors who have subsidiaries or branch offices in Canada. There are no controls on foreign currencies, capital repatriation or income of non-Canadians.

The Bank of Canada is the central bank of Canada that sets the main interest rates. The Canadian dollar exchange rate is set by the market.

The province of Québec has a very ambitious program aimed at the integrated and sustainable development of its territory. To that effect, the Québec government plans for investing 88.4 billion dollars in its public infrastructures, between 2015 and 2025, in order to stimulate the economy and create jobs in all regions. Québec offers foreign investors a very beneficial business environment: a stable and diversified economy, a significant pool of qualified labour and one of the lowest corporate tax rates in North America.

Non-Canadians who wish to start or purchase a business in Canada may have to notify the government. The Investment Canada Act aims at limiting foreign investment and property in certain sectors such as financial services, communications, transport, media and culture. Generally, this Act does not impose constraints on investments that do not exceed a certain threshold. A higher threshold, set each year, applies to investors who live in countries members of the World Trade Organization (WTO) or North American Free Trade (NAFTA)

Foreign investors would be well advised to know both the various federal and provincial legislations that govern business activities in general and those that govern the industries or specific activity sectors in the provinces where they wish to do business, such as the environmental protection laws, the labour laws, the competition acts, the laws on intellectual property, the consumer protection laws and posting acts. They should also find out about the various regulations, fees, rights and taxes that may apply depending on the government of the municipality where they decided to set up their business.

International Trade

Free trade agreements (FTA) have been concluded with more than 10 countries already, namely Chile, Colombia, Costa Rica, Honduras, Israel, Jordan, Panama and Peru. These agreements benefit all parties given as they procure competitive benefits in a vast array of sectors. Negotiations are underway between Canada and more than 60 other countries in order to conclude similar FTAs. In addition to these agreements, Canada is also a member of the Asia-Pacific Economic Cooperation (APEC) whose goal it is to promote economic exchanges in the Asia-Pacific region. Furthermore, in February 2016, Canada also concluded a Comprehensive Economic and Trade Agreement (CETA) involving all economic exchanges with the European Union (EU). This agreement expands the scope of the FTA signed with the EU in 2013. Finally, in 2016, Canada also signed a Trans-Pacific Partnership following negotiations undertaken in 2015.

Import regulations are enforced by the Canada Border Services Agency, a key government organization in this matter that is under federal jurisdiction.

Canada offers an open economy with few import restrictions. Most products imported into Canada are subject to customs duties and the goods and services tax (GST) or other provincial sales tax. Customs rates vary depending on the nature of the goods and their country of origin. Canada, the United States and Mexico co-signed the NAFTA, an agreement under which most of the customs duties have been eliminated between these countries.

Competition

Although Canada has opted for a market economy, there are national laws in order to protect and promote competition within the country. Competition Bureau Canada is the federal agency responsible for governing and applying these laws.

The federal "Competition Act" prescribes the practices that regulate unfair competition and monopoly in all economic sectors and competition levels across Canada, with a few exceptions. Among others, provisions concerning advertising, trade practices and telemarketing are set in place in order to avoid any misleading actions. Furthermore, the "Competition Act" contains provisions in order to avoid abuse that could lead to a dominant market position during mergers or types of collaborations between market rivals.

These laws concerning competition ensure consumers have a choice of products at competitive prices. They allow SMEs to find a reasonable place within the national economy and increase the chances of Canadian participation in the international markets. The objective of the "Competition Act" is also to stimulate the efficiency and adaptability of the Canadian economy while taking into account the role of foreign competition in Canada.

In addition to protecting companies against unfair competition, Canada has consumer protection laws to protect consumers from false or deceitful declarations as well as deceptive packaging and labels related to the sale of goods and services.

Finance

The Canadian financial market is well developed and reliable. It is characterized by strong government regulations and safe practices when it comes to lending. This has certainly played a role in allowing Canadian banks to get through the financial crisis with more ease.

The main sources of capital are the Canadian chartered banks and other financial institutions, stock markets and government agencies.

Canada has three specialized stock markets: the Toronto Stock Exchange (TSX) that lists securities and stocks of large Canadian and foreign public corporations, the Montreal Exchange that lists solely derivative instruments, and the TSX Venture Exchange that lists stocks of emerging Canadian public start-ups.

The federal and provincial governments, directly or via their institutions, can also be a significant source of funding, either by financing the corporations themselves, or by offering loan guarantees.

Workers

Work is usually governed by provincial laws. Each province determines the labour laws applicable on its territory such as the minimum wage, work schedules, statutory holidays, vacation pays, pay equity and the establishment of workers' unions.

Social Security

Canada essentially has two public pension plans: the Old Age Security Program (available to all) and the Canada Pension Plan (CPP) (available to workers who contributed to the plan during their working life) or the Québec Pension Plan (QPP) (for workers residing in Québec). The law also offers Canadians who earned an eligible income (essentially an employment or business income) the option to contribute to a registered retirement savings plan (RRSP).

The federal government also administers the employment insurance program, which provides benefits to workers who are involuntarily and temporarily without employment.

The provinces manage their respective occupational health and safety programs that grant benefits to workers and their dependents in the event an injury or death occurs within the context of their job.

Canadians benefit from a public healthcare system, administered by the provinces. Healthcare services not covered or covered in part by the public system (dental care, vision care and drugs) are often covered by the employer's insurance.

Immigration: Work Permits

People who are not Canadian citizens or permanent residents of Canada require a work permit to work in Canada. Work permits allow individuals to occupy a specific job for a specific employer. These temporary work authorizations are generally valid for an initial period of six months to one year, but they can be extended for several years beyond their initial date.

LEGAL ENTITIES

Any person wanting to do business in Canada can choose the legal form of doing business that best suits his or her needs.

To determine which legal form is most appropriate, investors must take several factors into consideration, such as the nature of the activities, asset protection, access to various incentive and funding programs and, of course, taxation.

Here is a summary of the main features of the most frequent legal forms of doing business:

Corporations

A corporation is the most frequent form of legal organization. From a legal standpoint, a corporation is an entity distinct from its stockholders given as it has its own legal personality. A corporation allows stockholders' responsibilities to be limited to the amount of their investment.

Corporations can be formed in accordance with the federal law (Canada Business Corporations Act) or a provincial law (in Québec, the Québec Business Corporations Act).

The provisions contained in the corporate laws of each of these jurisdictions are similar, but the differences could be important and require special attention. Some jurisdictions require the submission of an annual report accompanied by nominal fees.

Federal and provincial corporate laws usually require the presence of Canadian administrators and sometimes they must even make up the majority of the board of directors. Some provincial laws, including those in Québec, are an exception to this rule. The members of the board can be non-Canadian residents as long as they abide by the requirements of the Canadian legislation in terms of immigration.

The provinces of Alberta, British Columbia and Nova Scotia propose a particular form of incorporation: the Unlimited Liability Corporation (ULC). The particularity of ULCs, is that they provide no limit to the stockholders' responsibilities. This legal entity is sometimes used by investors from the United States due to the advantages it provides for U.S. tax purposes.

When a foreign corporation wants to do business in Canada, it can do so by creating a distinct Canadian subsidiary or branch in Canada. The Canadian subsidiary simplifies the administrative process and generally limits the responsibility of the parent company towards its investment. In order to set up a branch, the foreign company must register in the provinces where it will be carrying on its activities. The advantage of a branch is that it allows for the deduction of the losses often incurred during a corporation's first years of operations.

Generally, a Canadian corporation is taxable in Canada on its worldwide income, regardless of its source. A Canadian corporation's taxable income is first taxed at the corporate level and then at the personal level when the dividends are paid to individual stockholders.

To compensate for the double taxation, the Canadian tax system grants individuals residing in Canada a tax credit for dividends. As for Canadian corporate stockholders, they benefit from a deduction equal to the number of dividends received in the calculation of their taxes. Dividends are distributed free of income tax when they are paid from one Canadian corporation to another. However, a special temporary tax is payable by a Canadian corporate stockholder on the dividends received from "non-connected" Canadian corporations. This special tax is reimbursable when the time comes for the corporate stockholder to pay a dividend.

The Canadian tax system grants many benefits to a "Canadian-controlled private corporation" and, sometimes, to its stockholders or employees. However, some of these benefits are reduced based on the corporation's size or profitability level. The provisions that have to do with scientific research and experimental development (SR&ED) tax credits as well as the small business deduction (SBD) are examples of this.

Partnerships

From a legal standpoint, a partnership is a relationship between two or several persons (individuals, corporations or trusts), hereafter called "partners", who agree to do business in order to generate a common profit. Partnerships don't have legal personality.

Generally, there are two types of partnerships: "general partnerships", in which the partners' responsibility is unlimited, and "limited partnerships", in which the partners' responsibility is limited. Partnerships are governed by provincial laws and, consequently, certain specifics can vary from one province to the next.

Some provinces also offer the option of limited liability partnerships or LLP, which is generally used by professional services firms. This "hybrid" partnership limits a partner's responsibility regarding the professional errors of another partner, but remains unlimited regarding all other aspects.

In general partnerships, each partner is jointly and severally liable with the other partners regarding the partnership's debts, up to the limit of his/her own assets.

Limited partnerships are made up of two types of partners: the general partner, whose responsibility is unlimited and the limited partner(s), whose responsibility is limited to the amount invested in the limited partnership. Limited partnerships are interesting because they combine the tax benefits of general partnerships and the limited responsibility offered by corporations.

From a tax standpoint, partnerships are treated as flow through entities. A partner's proportionate share of the income, loss and other tax attributes of the partnership are added to the said partner's income, whether or not it has been distributed. There is normally no withholding tax on business income, whether or not the partner is a Canadian resident. Non-resident partners must file a federal income tax return and, if applicable, a provincial one.

Joint Ventures

Joint ventures are similar to general partnerships; they involve putting together the resources of two or more people in order to achieve a common goal, without having to create a legal entity.

However, joint ventures differ from general partnerships by its temporary nature. In fact, a joint venture normally ceases to exist upon the completion of its project or when its term expires. Joint ventures are not recognized under tax laws. Each joint-venture partner is rather taxed on his/her share of the income and expenses as if the said incomes and expenses had been earned or incurred directly by him/her.

Trusts

A trust is an appropriated patrimony by which the settlor entrusts his assets to a person (the "trustee") who must manage them for the benefit of other people (the "beneficiaries"). There are two types of trusts: Trusts between living persons (inter vivos), created by a deed of trust during the settlor’s lifetime, and testamentary trusts, created by the will of a deceased person. Trusts are governed by provincial laws.

Trusts have a legal personality distinct from that of its beneficiaries. The fiduciary and the beneficiaries are not usually personally responsible for the trust’s debts. A trust can operate a business.

Generally, the trust’s income or capital gains can be taxed directly in the trust or at the beneficiaries’ level, if the trust distributes its income or capital gains among its beneficiaries. Testamentary trusts benefit from a more advantageous tax treatment than inter vivo trusts.

Trusts must pay taxes on unrealized capital gains every 21 years, except where noted.

Sole Proprietorships

It is a non-incorporated business, run by an individual, for his own account. The modalities and set-up fees are minimal. The income derived from the business (or the loss incurred) is added to the individual's other income and the overall income is taxed at the tax rates applicable to individuals. The individual's responsibility regarding the business' debts is unlimited.

Other Legal Forms of Doing Business: Franchising and Licensing

Foreign investors who wish to do business in Canada can also do so under other more contractual forms, for example, franchising and licensing.

Franchising is an agreement by which a franchiser grants the franchisee the right to use an operating structure, intellectual property or a trademark. In Québec, franchises are governed by the general contract law.

Licensing is when the licensor holding intellectual property rights grants the licensee the right to use his intellectual property rights in a determinable fashion.

Operating a business as a franchise or licence can be done in either previously described legal forms of doing business.

TAXATION

The Canadian tax system provides for the collection of various taxes such as the income tax, sales taxes, payroll tax and other duties and taxes.

Income Tax

The federal and provincial governments collect tax on income. The federal government collects tax on worldwide income of persons (individuals, companies and trusts) who are residents of Canada and, subject to applicable tax treaties, Canadian-source income of non-residents. Generally, provinces collect tax on the income of persons residing in the province on December 31st and on the income of non-resident persons who operate a business in the province. Québec also collects tax on the income of a non-resident when it results from a gain realized at the disposal of certain taxable Québec property or from employment in Québec.

Taxpayers must normally file a yearly income tax return. Tax is paid through deductions at source, tax instalments and payment of the balance due at the specific times provided by law.

The amount of taxable capital gains corresponds to 50% of realized capital gains. The same 50% rule applies to capital losses. Capital losses are deductible against capital gains. Capital losses not used one year can be carried back to the past three years or carried over indefinitely into the future.

Operating losses apply against all sources of income. Unused operating losses can be carried back to the past three years or carried over 20 years into the future.

Canada has concluded tax treaties with several countries allowing, namely, to resolve issues of dual residence and to avoid double taxation.

Non-residents are first subject to pay income tax if they earn employment income in Canada, carry on business in Canada or realize a gain upon disposal of certain Canadian property. The existence of a business is a question of fact. The simple solicitation of orders in Canada, be it via a nominee or representative, can be considered as carrying on business in Canada. However, tax relief may be available in accordance with a tax treaty when the non-resident has no permanent establishment in Canada and files an income tax return in order to claim the benefit of the tax treaty.

Non-resident companies that carry on business in Canada through a permanent establishment are subject to income tax on their business income earned in Canada.

Non-resident companies are also subject to “branch tax”, which is imposed at a rate of

25% on the after tax benefits not reinvested in Canada, subject to a reduced rate under an applicable tax treaty.

Certain amounts for services rendered in Canada are subject to a 15% withholding tax (an additional 9% applies in Québec). This withholding tax constitutes an advanced payment on the final tax that may be due. This withholding tax can be reduced or eliminated by a tax treaty.

Non-Canadian residents, including partnerships with at least one non-resident partner, are also subject to a 25% withholding tax on certain Canadian-source income, including dividends, interests, rents, royalties as well as on certain management or technical service fees and other similar payments. In this case, it is a final tax. The redemption of shares by a Canadian subsidiary, normally results in a deemed dividend, also subject to non-resident withholding tax. It will be the case when the amount paid exceeds the capital upfronted on these shares. This 25% rate can be reduced or eliminated in accordance to a tax treaty.

The deductibility of interest expenses is limited to a certain amount when the thin capitalization rules apply.

Canadian legislation regarding transfer pricing generally abides by the principles of the Organisation for Economic Co-operation and Development (OECD). Transactions between non-arm's length persons, including cross border transactions, must be reflected at the fair market value, as if they had been entered into between arm's length persons. A taxpayer must prove he made a reasonable effort to maintain appropriate documentation to support the transfer prices used.

When a non-resident company temporarily assigns an employee to Canada, Canadian tax considerations vary depending on whether or not the employee becomes a Canadian resident. A Canadian resident is subject to pay income tax on his worldwide income. A non-resident is taxed in Canada on the income attributable to his employment in Canada.

The job is considered to be exercised in Canada if the services related to the said job physically take place there; the employer's place of residence generally has no incidence on this determination. In certain cases, namely during short secondments, non-residents may be exempted from paying income tax in Canada.

Sales Taxes

The federal and provincial governments collect mostly sales taxes. The goods and services tax (GST) is a federal value-added tax. The GST system is made up of three supply categories: taxable supplies (most tangible and intangible goods as well as services), exempt supplies (financial services and health services among others) and zero-rated supplies (exports and basic food products for example).

Generally, the GST works as follows. A company that provides goods or services in Canada, whether they are taxable or zero-rated, must register with the tax authorities for the purposes of the GST, withhold a 5% GST on its taxable supplies and remit it to the government. Unless its activities consist of making exempt supplies, the company is normally entitled to a refund of the GST it pays on supplies it acquires in the course of commercial activities (input tax credit).

The provinces of Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador as well as Prince Edward Island (called the Participating Provinces) have harmonized their provincial sales tax (PST) system with that of the GST, where the Harmonized Sales Tax (HST) applies instead of the GST. The HST is made up of the GST of 5% and a provincial component varying from 8% to 10%, according to the province.

Québec also imposes its own value-added tax on goods and services (like the GST): the Québec Sales Tax (QST) rate is 9.975%. The QST base is similar to that of the GST.

British Columbia, Saskatchewan and Manitoba impose a retail sales tax, which functions differently than the GST; it is payable by the end user and is aimed at most goods and certain types of services. The rates vary between 6% and 8%. Alberta does not collect a sales tax.

Please refer to section 7 (p. 33) where we have provided a chart that summarizes the sales tax rates of each of the provinces.

Employment Insurance

The federal government collects contributions for employment insurance (EI). This plan is financed by both employees and employers; employers pay 1.4 times the contribution made by employees.

The province of Québec also manages its own plan: the Québec Parental Insurance Plan (QPIP). This plan is supplementary to the federal employment insurance plan as it insures a greater number of situations. Québec employees and employers benefit from a deduction of their contribution to the federal employment insurance plan, but must contribute to the QPIP. The QPIP is calculated in a manner similar to the EI.

The Canada and Québec Pension Plans

Employees and employers from all provinces, except Québec, must contribute to the Canada Pension Plan (CPP). The employee and employer contributions are equivalents and are based on the employee's salary. Québec manages its own pension plan, the Québec Pension Plan (QPP), which is, very similar to the CPP.

Social security agreements allow foreign workers to maintain their coverage under the plan of their source country for a certain period of time.

Health Insurance and Financing of the Health and Workmen's Compensation Systems

Some provinces, including Québec, require that people living in the province pay an insurance premium for drugs or healthcare.

Some provinces, including Québec, deduct amounts at source on salaries paid to employees who live in the province in order to finance healthcare as well as workmen's compensation.

Other Duties and Taxes

The federal government collects customs duties and excise taxes. Some provinces and municipalities collect other duties and taxes (capital tax, resource royalties, property tax and real estate transfer tax).

In Canada, there is no estate or gift tax. However, some provinces impose certification fees when property is received by a beneficiary as a result of a will.

ACCOUNTING AND AUDIT

In Canada, the accounting principles are enacted by the Accounting Standards Board (AcSB) of the Chartered Professional Accountants of Canada (CPA Canada). These principles require that public companies and certain reporting issuers apply the International Financial Reporting Standards (IFRS). Private companies can choose to use IFRS or Accounting Standards for Private Enterprises (ASPE). The IFRS and the ASPE make up the Generally Accepted Accounting Principles (GAAP).

Audit standards are enacted by CPA Canada's Auditing and Assurance Standards Board. Canada has adopted the Canadian Audit Standards (CASs).

Federal and provincial corporate laws generally require that stockholders designate an independent auditor to issue a report on a company's financial statements. Stockholders of private companies can nevertheless renounce this privilege each year.

CORPORATE TAX RATES

INCOME TAX RATES FOR CORPORATIONS DOING BUSINESS IN QUÉBEC

For Fiscal Year: January 1 to December 31, 2018

BUSINESS INCOME	FEDERAL	QUÉBEC	TOTAL
Canadian-controlled private corporation – income eligible to SBD			
• Income $0 - $500,000 manufacturing SME[1]	10.00%	4.00%	14.00%
• Income $0 - $500,000	10.00%	7.24%[2]	17.24%
• Income > $500,000	15.00%	11.70%[3]	26.70%
Canadian-controlled private corporation – Income non-eligible to SBD	15.00%	11.70%[3]	26.70%
Other private companies and public companies	15.00%	11.70%[3]	26.70%

INVESTMENT INCOME (other than the dividends)	FEDERAL	QUÉBEC	TOTAL
Canadian-controlled private corporation	38.67%	11.70%[3]	50.37%
Canadian-controlled private corporation – Refundable dividend tax on hand (RDTOH)[4]	(30.67%)	-	(30.67%)
	8.00%[5]	11.70%	19.70%
Other private companies and public companies	15.00%	11.70%	26.70%

1 A company of which more than 50% of its business (assets and labour) consists of manufacturing and processing activities can have a maximum 4% reduction from March 31, 2015. Linear reduction applies when the manufacturing activities portion is between 50% and 25%.

2 Since December 31, 2016, an eligible corporation must abide by certain criteria based on hours worked by its employees in order to benefit from the 8% rate. Effective March 28, 2018, the 8% rate is reduced by 1%, in all on January 1, to reach 4% on January 1, 2021.

3 The rate will be gradually reduced from January 1, 2017 to January 1, 2020 in order to reach 11.5%.

4 The investment income of Canadian-controlled private corporations generally creates a RDTOH account at the federal level equal to 30.67% of the investment income. This RDTOH account is refundable to the corporation on the basis of a $1.00 refund for each $3.00 of "taxable dividends paid".

INCOME TAX RATES FOR CORPORATIONS DOING BUSINESS IN THE OTHER PROVINCES AND TERRITORIES

For Fiscal Year - January 1 to December 31, 2018

PROVINCE / TERRITORY	ELIGIBLE TO SBD BELOW $500,000	ELIGIBLE TO MPP[6]	GENERAL	CCPC INVESTMENT INCOME[7]	CCPC MINUS RDTOH[8]
Newfoundland and Labrador	13.00%	30.00%	30.00%	53.67%	23.00%
Prince Edward Island	14.50%	31.00%	31.00%	54.67%	24.00%
Nova Scotia[9]	13.00%	31.00%	31.00%	54.67%	24.00%
New Brunswick	12.50%	29.00%	29.00%	52.67%	22.00%
Ontario	15.50%	25.00%	26.50%	50.17%	19.50%
Manitoba[10]	10.00%	27.00%	27.00%	52.67%	20.00%
Saskatchewan	12.00%	25.00%	27.00%	50.17%	19.50%
Alberta	12.00%	26.00%	27.00%	50.67%	20.00%
British Columbia	12.00%	26.00%	26.00%	49.67%	19.00%
Yukon	12.00%	17.50%	27.00%	50.67%	20.00%
Northwest Territories	14.00%	26.50%	26.50%	50.17%	19.50%
Nunavut	14.00%	27.00%	27.00%	50.67%	20.00%

6 MPP: Manufacturing and processing profits.

7 Tax rate for investment income (other than the dividends) earned by a private company under Canadian control. For other companies, investment income is taxed at the general rates.

8 This rate takes into account the RDTOH mechanism and the dividend tax refund.

9 The maximum eligible amount for the purposes of the SBD is $500,000 for Nova Scotia starting from 2017 and beyond

10 The maximum eligible amount for the purposes of the SBD is $450,000 for Manitoba.

CORPORATE TAX CREDITS

The federal and Québec governments grant several tax credits in order to promote investments and job creation. The various tax measures target, among others, industries that take part in scientific research and experimental development and/or e-business development activities. The measures also apply to corporations that operate in the fields of manufacturing or natural resources, cultural industry and multimedia as well as in the field of financial services.

In this document, we will only be reviewing the SR&ED tax credit and the various tax credits related to the manufacturing industry.

Tax Credit for SR&ED

Eligibility Criteria:

Technological or scientific advancement, technological uncertainty and scientific content.

RATE	FEDERAL	QUÉBEC
General	15.00%	14.00%
Canadian-controlled private corporations	35.00%[1]	30.00%[2]
ELIGIBLE EXPENSES (UNDER CONDITIONS)	**FEDERAL**	**QUÉBEC**
Current expenses		
• Direct salaries	x	x
• Contract payments	x[3]	x[4]
• Materials consumed	x	
• Materials transformed	x	

Refund and taxation: the tax credit for SR&ED is fully refundable in Québec. At the federal level, it is refundable under certain conditions. The Québec tax credit and the federal tax credit are taxable at the two levels of government.

1 This rate is subject to a cap of $3 million which gradually decreases when the taxable income of the previous year exceeds $500,000 or when the taxable capital employed in Canada for the previous year exceeds $10 million (including associated companies).

2 This rate is subject to a maximum of $3 million that gradually decreases when the assets of the company and its affiliated companies exceed $50 million.

3 Contract payments are limited to 80% of incurred expenses.

4 Contract payments are limited to 50% of incurred expenses.

Québec Investment Tax Credit

Eligibility Criteria:

An eligible company[5] that acquires computer equipment or material used mainly in manufacturing and processing prior to January 1, 2023[6].

Eligible Expenses:

The acquisition cost of computer equipment used mainly in manufacturing and processing. It must be new and used within a reasonable delay during a period of at least 730 days, only in Québec.

Rate:

The base rate of the tax credit is equal to 4% and can be increased by 20% so as to reach 24%[7] under certain conditions. The rate increase depends on the region where the investment was carried out. For qualifying acquisitions made after August 15, 2018, and before January 1, 2020, the base rate is increased to 5%. In addition, the markup can also increase in order to reach 40% in a remote area, 30% in the eastern side of the Bas-Saint-Laurent's jurisdiction, 20% for the intermediate area, and finally 10% for the other areas.

Exclusion Threshold:

A $12,500 exclusion threshold applies in order to reduce, for a given eligible asset, the total eligible costs incurred used in the calculation of the investment tax credit. If the asset is acquired over several fiscal years, the eligible costs are only reduced once[8].

5 A company that operates a business in Québec and has an establishment there. Note that the following companies are not entitled to the investment tax credit: an exempt company, a Crown corporation, a wholly-owned subsidiary of such a company, an aluminum manufacturing company and an oil-refining company.

6 The costs incurred prior to January 1, 2023 are eligible if the assets are acquired to be used in a remote zone, intermediate zone or in the Lower St. Lawrence region. None of the assets acquired after December 31, 2016 will be eligible if they are used in a region other than those listed above.

7 The increased rate is reduced on a straight-line basis when paid-up capital of associated corporations is above $250 million, but under $500 million.

8 This change occurred as part of the Revenu Québec December 2, 2014 economic update.

Refundable Tax Credit Regarding the Integration of Information Technologies (IT) Within SMEs in the Primary and Manufacturing Sectors

Qualified Corporations:

This credit is granted to corporations in the primary sector of manufacturing or of the wholesale trade or the eligible detail[9] sector, which the proportion of manufacturing or transformation activities and primary sector activities exceeds 50% for the tax year in question.

Eligible Expenses:

Costs regarding a management software package for which Investissement Québec has issued a certificate. The certificate can be issued by Investissement Québec until December 31, 2019.

Rate:

The credit rate is 20% when the corporation and the associate corporations' paid-up capital of the previous fiscal year does not exceed $35 million. Above that, the credit rate is reduced linearly to become null when the paid-up capital reaches $50 million.

Maximum Credit:

The total credit amount a corporation can claim is limited to $50,000 for the duration of the tax credit

Refund and Taxation:

The tax credit regarding the integration of ITs is fully refundable in Québec. It is taxable at both levels of government.

[9] Agriculture, timber, fishing and hunting are examples of activities attributable to the primary sector. Excluded a tax-exempt corporation for year, a Crown corporation or a wholly-owned subsidiary of the latter, a production corporation of aluminum or a corporation of refining of oil.

Tax Holiday for Large Investment Projects – C2i

Eligibility Criteria:

After November 20, 2012, a company that takes part in a large investment project in Québec, that must be achieved within a 60-month period, at a minimum of $100 million or $75 million in the region where the investment is carried out, and that meets certain requirements.

The company must obtain an initial certificate as well as yearly attestations issued by the Ministry of Finance and Economy attesting that this project is namely related to activities in the production, processing and storing of information, wholesale trade and storing sectors.

The certificate request must be submitted no later than December 31, 2020, before the major investment project is scheduled to begin.

Eligible Capital Expenditure:

The capital expenditures incurred since the beginning of the project, in order to obtain goods and services for the implementation in Québec of the business or of the portion of the business through which the activities resulting from the major investment project or from the production modernization of such a business or part of a business in Québec[10].

Extent of the Tax Holiday:

This tax holiday applies to income tax resulting from eligible activities regarding this project and the employer's contribution to the health services fund relating to the salaries paid to employees in view of these activities.

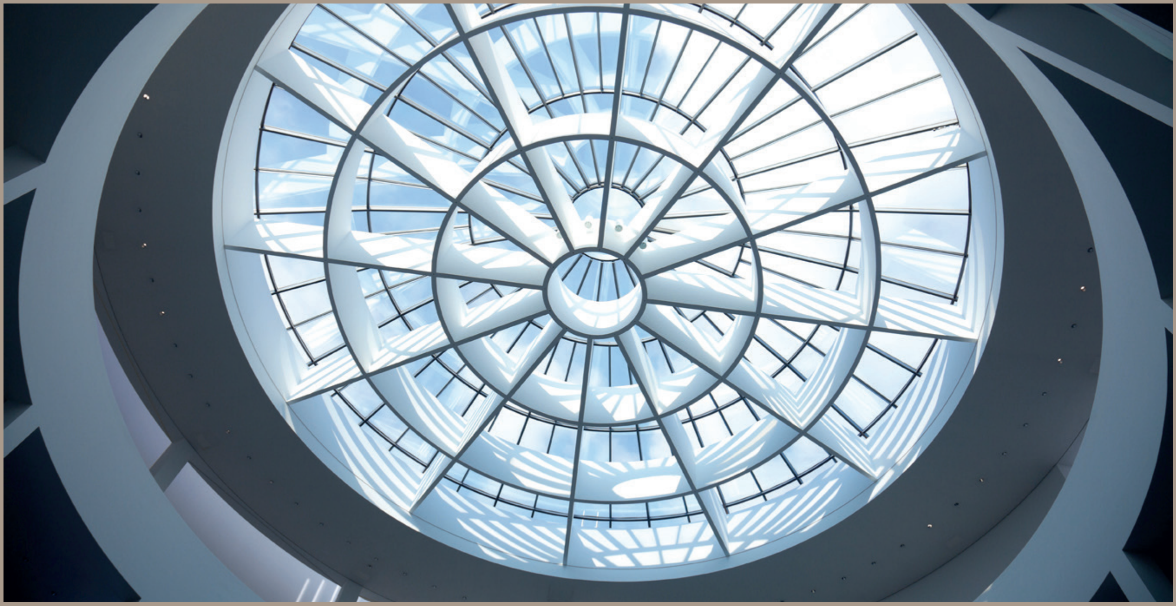
Duration of the Tax Holiday:

This tax holiday lasts 15 years.

Maximum Tax Assistance:

The total amount of tax assistance granted cannot exceed 15 % of the total eligible.

[10] The investment expenses attributable to the realization of the project will not include expenses related to the purchase or the use of land or those related to the acquisition of an enterprise already carrying on business in Québec.



SALES TAXES

2018 FEDERAL AND PROVINCIAL SALES TAX RATES[1]

PROVINCE / TERRITORY	GST	HST	QST	PST	COMBINED EFFECTIVE RATE
Newfoundland and Labrador	5%	10%			15%
Prince Edward Island	5%	10%			15%
Nova Scotia	5%	10%			15%
New Brunswick	5%	10%			15%
Québec	5%		9.975%		14.975%
Ontario	5%	8%			13%
Manitoba	5%			8%	13%
Saskatchewan	5%			6%	11%
Alberta	5%				5%
British Columbia	5%			7%[2]	12%
Yukon	5%				5%
Northwest Territories	5%				5%
Nunavut	5%				5%

1 Rates prevailing on August 1, 2018. Note that rates in effect prior to this date can differ depending on the provinces.

PAYROLL TAXES

CONTRIBUTIONS TO EMPLOYMENT INSURANCE, QUÉBEC PENSION PLAN AND QUÉBEC PARENTAL INSURANCE PLAN FOR THE YEAR 2018

	EMPLOYMENT INSURANCE (EI) IN QUÉBEC	QUÉBEC PENSION PLAN (QPP)	QUÉBEC PARENTAL INSURANCE PLAN (QPIP)
Maximum pensionable earnings	$51,700	$55,900	$74,00
Basic exemption	S. O.	$3,500	S. O.
Contribution rate – employee	1.30%	5.400%	0.548%
Maximum contribution – employee	$672,10	$2,829.60	$405.52
Contribution rate – employer	1.82%	5.400%	0.767%
Maximum contribution – employer	$940.94	$2,829.60	$720.02

CONTRIBUTION TO THE HEALTH SERVICES FUND

In 2018, the contribution to the health services fund was reduced with effect from March 28, 2018, and reduced a second time from August 16, 2018. The contribution rate varies between 1.25% and 4.26% of the total liable earnings paid to employees. This rate is based upon the type of company and the period in which the salary was paid. The 4.26% rate applies if the payroll is $5 million or more. Starting in 2019, the payroll threshold will be gradually increased to $7 million in 2022. For the purpose of calculation payroll, one must consider the overall payroll of all associate companies around the world. Only the employer is required to make this contribution.

CONTRIBUTION TO THE WORKFORCE SKILLS DEVELOPMENT AND RECOGNITION FUND (WSDRF)

An employer, whose payroll exceeds $2 million in Québec per calendar year, must invest 1% of its payroll in training. In the event an employer does not spend this amount,

COMMISSION DES NORMES, DE L'ÉQUITÉ, DE LA SANTÉ ET DE LA SÉCURITÉ DU TRAVAIL (CNESST)

Contribution to the CNESST / Labour Standards

The contribution to the financing of the CNESST / Labour Standards is 0.07% of the total liable earnings paid to employees. In 2018, the maximum liable earning per employee is $74,000. Only the employer is required to make this contribution.

Contribution to the CNESST / Occupational Health and Safety

An employer located in Québec must make contributions to the financing of the CNESST. The contribution amount is calculated based on the total liable earnings paid to an employee. The contribution rate is decided based on the industry sector and the company's claim history. For 2018, the maximum amount of the insurable earnings per employee is $74,000. Only the employer is required to make this contribution.

TAX RATES FOR INDIVIDUALS

TAX RATE ON PERSONAL INCOME – 2018

Federal

TAXABLE INCOME	RATE	RATE AFTER QUÉBEC ABATEMENT
$0 - $46,604	15%	12.53%
$46,605 - $93,207	20,5%	17.12%
$93,208- $144,488	26%	21.71%
$144,489 - $205,841	29%	24.22%
$205,842 and over	33%	27.56%

Québec

TAXABLE INCOME	RATE
$0 - $43,054	15%
$43,055 - $86,104	20%
$86,105 - $104,764	24%
$104,765 and over	25.75%

Combined and Effective Marginal Rates

TAXABLE INCOME	COMBINED MARGINAL RATE (FEDERAL+PROVINCIAL)	COMBINED EFFECTIVE RATE (FEDERAL+PROVINCIAL)
$0 - $43,054	27.53%	0% - 18.88%
$43,055 - $46,604	32.53%	18.88% - 19.84%
$46,605 - $86,104	37.12%	19.84% - 27.83%
$86,105 - $93,207	41.12%	27.83% - 28.76%
$93,208 - $104,764	45.71%	28.76% - 30.73%
$104,765 - $144,488	47.46%	30.73% - 35.25%
$144,489 - $205,841	49.97%	35.25% - 39.63%
$205,842 and over	53.31%	39.63% and over

MAXIMUM MARGINAL TAX RATES FOR 2018

Other Incomes (residents of other provinces and territories)

PROVINCE / TERRITORY	MARGINAL INCOME BRACKET ($)	MARGINAL RATE PROVINCE / TERRITORY (%)	COMBINED MARGINAL TAX RATE (%)
Newfoundland and Labrador	184,590	18.30	51.30
Prince Edward Island	63,969	16.70	49.70
Nova Scotia	150,000	21.00	54.00
New Brunswick	154,382	20.30	53.30
Ontario[1]	220,000	20.53	53.53
Manitoba	68,821	17.40	50.40
Saskatchewan	129,214	14.50	47.50
Alberta	307,547	15.00	48.00
British Columbia	150,000	16.80	49.80
Yukon	500,000	15.00	48.00
Northwest Territories	137,248	14.05	47.05
Nunavut	144,488	11.50	44.50

1 Ontario imposes a surtax when the basic tax exceeds a minimum level. The surtax is included in the provincial tax rate (Ontario 13.16% before the surtax).

STATEMENT OF EARNINGS EXAMPLES FOR 2018

NET INCOME FOR 2018

Gross Income	$30,000.00	$50,000.00	$75,000.00	$150,000.00
Employment Insurance	($390.00)	($650.00)	($672.10)	($672.10)
Québec Pension Plan	($1,431.00)	($2,511.00)	($2,829.60)	($2,829.60)
Québec Parental Insurance Plan	($164.40)	($274.00)	($405.52)	($405.52)
Federal Tax[1]	($1,880.08)	($4,359.66)	($8,579.89)	($24,164.33)
Québec Provincial Tax[2]	($2,075.70)	($5,366.20)	($10,366.20)	($28,647.08)
Net Income	**$24,058.82**	**$36,839.14**	**$52,146.69**	**$93,281.38**

EMPLOYER CONTRIBUTION FOR 2018 (EXCEPT CNESST / OCCUPATIONAL HEALTH AND SAFETY)

Gross Income	$30,000.00	$50,000.00	$75,000.00	$150,000.00
Employment Insurance	$546.00	$910.00	$940.94	$940.94
Québec Pension Plan	$1,431.00	$2,511.00	$2,829.60	$2,829.60
Québec Parental Insurance Plan	$230.16	$383.60	$567.73	$567.73
Contribution to the Health Service Fund (if the payroll is less than $1 million)	$69000	$1,150.00	$1,725.00	$3,450.00
Contribution to the CNESST / Labour Standards	$21.00	$35.00	$51.80	$51.80
Total	**$2,918.16**	**$4,989.60**	**$6,115.07**	**$7,840.47**
Total for the Employer	**$32,918.16**	**$54,989.60**	**$81,115.07**	**$157,840.07**

1 Takes into account the basic personal amount ($11,809).

2 Takes into account the basic personal amount ($15,012).

For additional information,
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