TAX AND LAW

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Doing Business in Canada

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Preface

This book was prepared by Ernst & Young, Canada. It was written to give the busy executive a quick overview of the investment climate, taxation, forms of business organization, and business and accounting practices in Canada. Making decisions about foreign operations is complex and requires an intimate knowledge of a country's commercial climate, with a realization that the climate can change overnight. Companies doing business in Canada, or planning to do so, are well advised to obtain current and detailed information from experienced professionals. This book reflects information current at 31 August 2001.

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Introduction

Geography

Canada is the second-largest country in the world, after the Russian Federation. It is more than 40 times the size of the United Kingdom and 18 times that of France. Canada occupies the northern part of North America, excluding Alaska and Greenland. The country is surrounded on three sides by oceans—the Atlantic, Arctic and Pacific—and is bordered by the United States to the south. It is a land of diverse topography, climate, vegetation and resources, extending at its greatest distance 4,600 kilometers (2,856 miles) from north to south and 5,200 kilometers (3,229 miles) from east to west. Canada's land and freshwater areas occupy a total of 9,976,140 square kilometers (6,185,206.80 square miles).

Population and Language

Population

Canada recorded a total population of 31 million in 2001. Because of the rugged terrain and harsh climate of northern Canada, most of the country's population is concentrated near the U.S. border. Approximately 77% of the total population resides in urban areas; the largest metropolitan areas of Toronto, Montreal, Vancouver and Ottawa-Hull each have populations exceeding 1 million.

Language

Canada has two official languages—English and French. The 1996 general census reported 59% of the population uses English as their first language and 23% uses French. English is the predominant language in most regions, except Quebec, where 81.5% of the population uses French as their first language. Immigration has had an increased impact on languages spoken in Canada. In 1996, 18% of the Canadian population reported a language other than English or French as their first language. The federal government has taken an active role in encouraging and facilitating the country's bilingual character, particularly in the public service and public institutions.

Time

Standard time zones range from three and one-half hours behind Greenwich Mean Time (GMT) in Newfoundland to eight hours behind GMT on the west coast. Clocks are generally advanced one hour when Daylight Saving Time is in operation. In Newfoundland, clocks are advanced two hours for Daylight Saving Time.

The following table shows time differences between Ottawa, Ontario and other major Canadian cities.

City	*Hours Ahead of or Behind Ottawa*
Calgary, Alberta	-2
Montreal, Quebec	0
St. John's, Newfoundland	+1.5
Toronto, Ontario	0
Vancouver, British Columbia	-3
Winnipeg, Manitoba	-1

The following table shows time differences between Ottawa, Ontario and other major world cities.

City	*Hours Ahead of or Behind Ottawa*
Frankfurt	+6
Hong Kong	+13
London	+5
New Delhi	+10.5
New York	0
Rome	+6
Sydney	+16
Tokyo	+14

Public Holidays

Public statutory holidays include the federal holidays listed in the table below. Certain provinces have additional holidays. Dates in italics vary from year to year.

Holiday	*2002*	*2003*	*2004*
New Year	1 January	1 January	1 January
Good Friday	*29 March*	*18 April*	*9 April*
Easter Monday (a)	*1 April*	*21 April*	*12 April*
Victoria Day	*20 May*	*19 May*	*17 May*
Canada Day (b)	1 July	1 July	1 July
Civic Holiday (c)	*5 August*	*4 August*	*2 August*
Labor Day	*2 September*	*1 September*	*6 September*
Thanksgiving	*14 October*	*13 October*	*11 October*
Remembrance Day (a)	11 November	11 November	11 November
Christmas Day	25 December	25 December	25 December
Boxing Day (d)	26 December	26 December	26 December

(a) Businesses remain open in most provinces.
(b) If 1 July of that year falls on a Sunday, the holiday is observed on 2 July.
(c) Observed in Manitoba, the Northwest Territories, Ontario and Saskatchewan.
(d) Observed in most provinces.

Useful Addresses and Telephone Numbers

For a list of useful addresses and telephone numbers in Canada, see Appendix 1, page 71.

A. Government Structure and Economic Climate

A.1 Government Structure

Canada is a constitutional monarchy composed of a federal government, 10 provincial legislatures and 3 territorial legislatures. Proclamation of the British North America Act of 1867 established the Dominion of Canada, consisting of Ontario, Quebec, Nova Scotia and New Brunswick. The act provided that the Constitution of Canada should be similar in principle to that of the United Kingdom. The Constitution Act of 1982 removed the United Kingdom's final formal constitutional control and, accordingly, Canada obtained the right to amend its own constitution. The Canadian Charter of Rights and Freedoms guarantees certain basic precepts of equality and generally may not be affected by legislation.

Canada is a self-governing federal parliamentary state and a member of the Commonwealth of Nations. Canadians recognize the British monarch as head of state. The monarch's representative, the governor-general, holds nominal executive power and acts on the advice of the Canadian prime minister and cabinet. However, the role of the governor-general is primarily ceremonial, and effective executive power resides with the cabinet.

The federal parliament is composed of the head of state, a nominated Senate and an elected House of Commons. The effective head of the federal government is the prime minister, who is the leader of the largest political party in the House of Commons. The prime minister appoints a cabinet comprised of House of Commons and Senate members of the largest political party. Parliament meets once a year, and elections are held at intervals not exceeding five years.

Provincial legislatures are unicameral bodies similar in structure and operation to the federal House of Commons. The monarchy is represented in each of the 10 provinces by a lieutenant governor, each of whom is appointed by the governor-general in council on the recommendation of the prime minister and the federal cabinet. The provincial cabinet advises the lieutenant governor and is accountable to the provincial legislature for its actions.

Municipal governments operate under provincial jurisdiction and usually consist of an elected mayor and a council. The municipal governments' organization and authority varies among the provinces, but the governments generally hold extensive powers of local self-government.

The constitution sets forth the legislative roles of the federal and provincial governments. In general, the federal government has jurisdiction over national defense, navigation and shipping, banking and currency, criminal law, and human rights and freedoms. The provinces exercise jurisdiction over education, municipal government, property and certain civil rights, and other matters of local concern. The provinces also exercise jurisdiction over labor relations, except in certain

enterprises under federal jurisdiction, including banking, shipping and other transportation enterprises. Businesses may be incorporated under either federal or provincial legislation, but the provinces have enacted most legislation governing the sale or transfer of corporate securities and stock exchange regulations. The federal government has jurisdiction over competition laws.

The legal system in Canada is composed of courts, whose judges are appointed by the government. The Supreme Court is located in Ottawa and has general appellate jurisdiction in civil and criminal cases throughout the country. The Federal Court, which rules primarily on administrative law and suits against the government, has a trial division and an appeal division. The seat of the Federal Court is in Ottawa, but each division may sit anywhere in Canada. Decisions of the trial division may be appealed to the appeal division and ultimately to the Supreme Court. Most criminal and civil cases are first heard in the provincially administered court system.

The common law legal system derived from England prevails throughout Canada, except in Quebec, which observes civil law based on French tradition. Judicial law in Canada is more similar to judicial legislation in the United Kingdom and Australia than in the United States.

A.2 Economy

Type of Economy

Canada's economy operates in a market-based environment that is founded on a democratic political system. Both the private and public sectors play active roles in determining the characteristics of goods and services made available to consumers and businesses. In general, the private sector designs and delivers products to meet and satisfy consumers' demands. The government oversees the maintenance of public health and safety, as well as acceptable commercial and social standards and, if necessary, regulates the nature of competition and industry structure for the public good.

General Economic Trends

Canada's economic performance in the latter half of the 1990s surpassed its performance in the first half of that decade. The average annual growth rate of gross domestic product (GDP) was 3.9% from 1995 to 1999, compared to 1.7% from 1990 to 1994. Canada's GDP expansion in 1999 and 2000 was very strong, with annualized rates of 5.1% and 4.4%, respectively.

The Canadian economy's GDP growth rate from the latter half of the 1990s into the new millennium may be attributed to the following factors:

- *Controlled, modest inflation:* Inflation during the latter part of the 1990s was maintained within the Bank of Canada's target range between 1% and 3%. The stability of inflation rates fostered GDP growth, as well as instilled business and consumer confidence.

- *Increased consumers' incomes:* During the last half of the 1990s, the real disposable income of Canadians grew at an average annual rate of 2.9%. Growth stimulated by rapid export market penetration, high investment spending and significant tax cuts resulted in impressive gains in real after-tax income, which in turn supported consumer spending and strong economic growth.
- *Strong growth in corporate profits:* Except for 1996 and 1998, annual corporate operating profits in Canada increased strongly each year after 1992. Increased profits during this period provided investment capital to increase growth and consumer and investor confidence.
- *Y2K-related shifts in technology and investments:* Preparations for the new millennium spurred considerable business investment in the latter part of the 1990s, particularly in machinery, equipment and new systems. However, productivity improvements derived from these investments have been modest.

The state of both federal and regional government finances in Canada made a remarkable turnaround in the latter half of the 1990s. In the early 1990s, most Canadian governments regularly ran deficits. Since then, strong government spending cutback programs have moved the federal and most regional governments into surplus positions. The improved state of government finances has enabled significant personal and corporate tax cuts that will contribute to a strong economic and investment environment. The federal government has implemented a plan for further reductions in corporate tax rates through 2004, aimed at making Canada a more competitive tax jurisdiction.

Consumer spending plays a significant role in Canadian economic growth. Real consumer spending and its primary catalyst, personal disposable income, both increased in 1998, 1999 and 2000. The unemployment rate fell to 6.8% in 2000 and remains close to the lowest levels that Canada has enjoyed in the last three decades. Extensive cuts in personal income taxes over the past few years will continue to boost disposable income and help to maintain customer confidence. These factors support positive prospects for consumer spending growth.

However, despite the strength of the economy in the latter part of the 1990s and 2000, the economic slowdown in the United States greatly affected Canada. The link between these two countries' economies is understandable, considering that more than 85% of Canadian exports in 1999 and 2000 were destined for the United States and more than 73% of Canadian imports originated in the United States during the same period. Canada's economic well-being is greatly dependent on the condition of its most significant trading partner. The dramatic decline of computer-chip producers, dot.com companies and the technology sector during 2000, as well as a severe downturn in the manufacturing sector, slowed growth in the U.S. economy. The effects of this economic slowdown in the United States are certainly visible in Canada.

The tragedy of 11 September 2001 in the United States may possibly affect the U.S. economy and, accordingly, the Canadian economy, although the exact effect cannot yet be measured. The incident, at a time when the U.S. economy was already experiencing an economic slowdown, may nudge the U.S. economy towards a further downturn. As a direct effect, the tragedy caused a temporary disruption in the U.S. business sector. The indirect effects may include loss of confidence by businesses, investors and consumers; heightened security concerns; and the potential impact on productivity in certain sectors, particularly the travel industry. However, because of the core strength of the U.S. and Canadian economies, both countries are expected to recover in the medium and long-term, and to return to robust growth.

The outlook for the likelihood of recovery in 2002 is optimistic. Anticipated resumption of strong growth depends on favorable economic developments in the United States and worldwide. Canada's solid economic fundamentals are underpinned by low inflation, low interest rates, rising productivity growth spurred by past and renewed investment spending, and strong consumer confidence. Canada has abundant natural resources and modern capital plants. Canadian investments in machinery and equipment in relation to GDP have reached the same level as in the United States. In addition, Canada's skilled labor force is derived from an educated, computer-literate and internet-connected population. These factors support the prospects of increases in productivity and continued growth over the next decade.

See Appendix 2, page 74, for a table of leading Canadian economic indicators.

A.3 Leading Industries

Services

The growth of the services sector in the Canadian economy coincides with the improvement in living standards and the resulting increase in demand for financial, leisure and other services. The services sector employs 9.2 million of Canada's total 12.1 million employees, or 76% of employed Canadians.

In 2000, services accounted for 67% of Canadian economic output, while production of goods accounted for the remaining 33%. These respective shares have remained quite stable over the last decade. In the business sector, real output in services continued to grow more rapidly than in goods-producing industries—4.9% compared to 3.5% from 1995 to 2000. This growth rate resulted primarily from rapid technological advances, particularly in computers and telecommunications. Canada's business services sector is becoming increasingly important to the economy. As the average age of Canadians increases, services-based industries will likely become an increasingly important component of the Canadian economy.

Manufacturing Sector
Canada's most significant manufacturing industries are transportation equipment, electrical and electronic products, foods and beverages, pulp and paper, primary metals, metal fabrication, wood products, chemicals and mineral fuels. In the electronics industry, the establishment of facilities and incentives for research and development and for education demonstrate Canada's willingness to adapt to and apply advanced technology. Many companies resident in Canada are at the forefront of technology and communications research.

The manufacturing sector has experienced an annual growth rate of 5.5% from 1996 to 2000, compared to the services sector's annual growth rate of 4.1% over the same period. However, sub-segments within the manufacturing sector have experienced variable growth rates. Electrical and electronic products represent the second largest sub-segment in Canadian manufacturing after transportation equipment, and have experienced more rapid growth than any other sub-segment at a compound annual growth rate of 20% from 1995 to 2000. During this same period, other sub-segments experienced slower growth. For example, tobacco products and leather and allied products declined by 1.6% and 9.4%, respectively.

The manufacturing sector employs 2.9 million employees, or 24% of employed Canadians.

Natural Resources
Canada has abundant natural resources, which represent a valuable component of the country's economy. Natural resources can be classified under the following four broad categories: energy; mining; agriculture and food; and forestry. Natural resources-related activities contributed 13.1% to Canadian GDP in 1997 and 12% in 2000. However, the demand for natural resources is cyclical.

Energy
The energy sector represented approximately 6.2% of Canadian GDP and 12.6% of Canadian merchandise exports in 2000. Hydroelectric energy is a major source of power in Canada and represents 43% of Canada's energy production by dollar value. It is derived from Canada's abundant lakes and rivers, which account for more than 15% of the world's fresh water.

Canada also has large supplies of natural gas and both proven and potential petroleum resources. The oil and gas sector, comprised of crude oil, natural gas and pipeline companies, accounts for an estimated 2% of Canadian GDP. The rise in oil prices in 1999 and 2000 increased the likelihood that Alberta's oil sands will become an increasingly important contributor to the world's petroleum production in the future.

Various stages of deregulation in the Canadian energy and utilities sector have served as a catalyst for restructuring and changing the industry. The provinces of Ontario and Alberta are in the most advanced stages of deregulation, which is

expected to create new commercial opportunities. However, the success of deregulation initiatives regarding improved distribution and price efficiencies for the end-user markets has not yet been demonstrated.

Mining

Canada produces a wide range of metals and other minerals. It is the world's leading producer of zinc and uranium and a major producer of coal, nickel, asbestos, copper, lead and iron ore. The country is the world's largest exporter of potash. The mining sector contributed approximately 3.5% to Canadian GDP in 2000 and represented 28% of the total value of Canada's natural resources sector.

Canada's mining industry must compete in a continuously changing global marketplace. General conditions of oversupply around the world and a relaxation of U.S. trade policies have depressed metal and mineral prices worldwide, slowing direct investment in Canada's mining industry. However, recent developments in Canada's mining sector include extensive exploration for diamond mines in the Northwest Territories and development of the world's largest uranium mines in Saskatchewan.

Agricultural and Food Products

Canada is a large producer and exporter of agricultural and food products. In 2000, more than C$23 billion of agri-food production was exported while C$17.3 billion was imported. Canada continues to be one of the world's principal food exporters, sending wheat, rapeseed, canola, beef and pork around the world, with the United States as the primary recipient. Food products represented approximately 6.6% of total exports in 2000, a slight decline from 7.1% in 1999. The food products that Canada imports primarily include wines and grapes, prepared foods, and coffee.

Forestry

Forests occupy approximately 49% of Canada's total land area and provide raw materials for the following manufacturing industries: saw and planing mills; shingle, plywood and veneer mills; particle-board plants; and pulp and paper mills. Many wood products are exported or are used as raw materials for manufacturing furniture, doors, millwork, wooden boxes and a variety of converted paper goods.

Forestry products contribute more to Canada's balance of trade than any other product category. Canada exported $39 billion of forest products in 1999 and $41 billion in 2000, representing 10.9% and 9.9% of total Canadian exports in those years, respectively. The principal market for Canada's forestry exports is the United States, which accounted for 79% of Canadian forestry exports in 1999. Japan and the European Union are the next most important markets for these products.

The Canadian forestry industry operates with some uncertainty, particularly regarding the softwood lumber industry. Canada's industry relies heavily on exports to the U.S. housing construction market. However, ongoing trade disputes

with the United States threaten the competitiveness of this significant Canadian industry. The trade disputes are anticipated to be resolved to a certain degree by the end of 2002.

A.4 Financial System

Central Bank and Bank Regulators

The Bank of Canada, in conjunction with the federal Minister of Finance, manages Canadian monetary policy, although the Bank of Canada has demonstrated considerable independence from the federal government.

The Office of the Superintendent of Financial Institutions (OSFI) regulates the federal financial sector in Canada. All Canadian banks must comply with strict reporting requirements established by the federal government and monitored by the OSFI.

The Canadian banking sector is structured under a branch banking system, through which six major financial institutions each operate nationwide branch networks. Retail and business banking services are also provided by trust companies and mortgage and loan companies, as well as by regionally operated credit unions. Insurance companies are also beginning to offer banking services and credit cards.

The federal government has enacted legislation to enhance competition among Canada's financial institutions to increase financing alternatives and provide greater protection for depositors. Under the law, subject to certain ownership restrictions, banks, trust companies and insurance companies are permitted to carry on business in each other's domain through separate subsidiaries. In addition, trust and insurance companies are authorized to operate certain financing activities, such as commercial lending.

The federal government welcomed the grant of Royal Assent on 14 June 2001 to Bill C-8, An Act to Establish the Financial Consumer Agency of Canada and to Amend Certain Acts in Relation to Financial Institutions. The legislation is expected to enter into force in the near future, pending completion of regulations required to implement certain provisions of the act. The legislation encourages new participants in the Canadian financial services sector with a new size-based ownership regime and lower minimum capital requirements. The legislation also enhances competition by expanding access to payment systems, and by offering more flexible regimes for credit unions and foreign banks.

Restrictions apply to the ownership of financial institutions. In general, a single shareholder may beneficially hold no more than 20% of voting shares and 30% of nonvoting shares of a big bank or insurer. A shareholder must meet a "fit and proper" test and obtain the approval of the Minister of Finance to exceed 10% ownership.

Stock Exchange and Securities Regulating Authorities

Canada's major exchange is the Toronto Stock Exchange (TSE), which competes for business with foreign exchanges. Most Canadian-based companies that operate internationally are listed on several exchanges. In 1999, the Canadian stock exchanges announced changes to their operations. Under the changes, the TSE trades senior equity issues, the Canadian Venture Exchange (CDNX), which resulted from the merger of the Vancouver and Alberta exchanges, trades junior issues, and the Montreal Exchange (ME) trades derivatives and small-capital Quebec stocks. The Canadian Dealing Network and the Winnipeg Stock Exchange (WSE) were rolled into the CDNX in 2000.

On 31 July 2001, the TSE acquired the CDNX in an effort to develop a stronger Canadian capital market that contains separate junior and senior exchanges operating on a complementary and coordinated basis, with an enhanced international profile. The consolidation is expected to enhance the attractiveness of the CDNX and the TSE as exchanges for issuers seeking new listings.

In April 2000, the National Association of Securities Dealers Automated Quotations System (NASDAQ) established an electronic exchange in Quebec to provide Canadian investors with easier access to U.S. securities and issuers with the ability to raise capital more efficiently. NASDAQ Canada will eventually be linked with its global counterparts.

Securities regulation in Canada is primarily under the respective jurisdictions of each province and territory in Canada and is exercised by a securities regulatory authority in each jurisdiction. In general, corporate securities offerings to the public must be made pursuant to a prospectus. The prospectus requirements are relatively straightforward as long as the securities legislation in the applicable jurisdiction is followed. However, because each province and territory regulates its own securities industry, the prospectus must be approved by the securities commission of each jurisdiction in which the securities are to be sold. In general, the requirements in the province of Ontario are similar to those of the U.S. Securities and Exchange Commission (SEC). Securities that are approved by the regulatory authorities will usually be listed and traded on one or more of the exchanges.

A.5 Currency

Canada's currency is the Canadian dollar (C$). The policy of the central bank is to allow the Canadian dollar to find its own market value, while ensuring that short-term adjustments in the dollar's value occur in an orderly manner.

See Appendix 3, page 75, for a table of average annual exchange rates between the Canadian dollar and major world currencies.

B. Investment Climate and Foreign Trade

A number of policy initiatives have improved Canada's economic performance. Combined with sustained low inflation, low interest rates, and deficit and debt reduction, these reforms are improving the accessibility, competitiveness and potential profitability of key sectors of the economy. Corporate profitability as a share of GDP is gradually returning to its long-term average after dropping to record lows during the last recession. A major commodity tax reform at the beginning of the 1990s removed significant tax-related impediments to economic growth, including certain measures that hindered the export of Canadian goods and services. The implementation of the North American Free Trade Agreement in 1994 (see Section B.3, page 24) has encouraged increased access to U.S. and Mexican markets and precipitated a major overhaul of corporate growth, marketing plans, and competitive strategies. In addition, the dismantling of trade barriers between Canadian provinces is enhancing the importance of interprovincial trade. Other structural measures undertaken by the federal government include regulatory reform in the telecommunications, transportation and financial services markets.

B.1 Investment Incentives

General Incentives

Canada's federal and provincial governments offer a wide range of incentives, primarily for investment or expansion in areas of high unemployment or low commercial development. Incentives also promote the expansion of certain industries, foster research and development, and encourage new investment in plant and equipment.

Incentives available in Canada include the following:

- Loan guarantees;
- Federally assisted worker retraining;
- Funding for research and development;
- Tax incentives in the form of favorable depreciation rates; and
- Industry-specific and regional incentives.

Certain federal and provincial regional programs, including the Atlantic Canada Opportunities Agency and the Federal Economic Development Initiative in Northern Ontario (FedNor), are designed to encourage investment in areas of slow growth, high unemployment or vulnerable economies. Other programs are intended to improve manufacturing productivity by encouraging equipment upgrades, process changes, and efficiency and quality in factories. Research and development programs are numerous and well funded, and are a top priority at both levels of government.

Many municipal governments in Canada offer incentives to attract companies to their areas. Two common incentives are access to industrial parks at reduced rates and information and location assistance provided by industrial commissions.

To qualify for assistance other than through specific programs or provisions of the Income Tax Act, the economic and social benefits of a project must be clearly demonstrated. Such benefits normally include technology transfer or advancement, job creation, skill improvement and favorable balance-of-payment effects through exports. To reduce the overlapping effect of investment incentives and normal tax benefits, the government has eliminated or reduced certain investment tax credits.

The government changes incentive programs quickly in response to its economic priorities. Preliminary information about federal or provincial programs may be obtained from the economic or business development department of the applicable government entity.

Federal Programs

Companies or particular individuals may want to explore the possibility of obtaining federal assistance if they are planning to carry out any of the following activities:

- Encouraging the development, transfer, application and diffusion of innovative technologies, particularly in the information technology, biotechnology or advanced materials fields. These activities may be pursued in association with other firms, university research centers or government laboratories.
- Engaging in research and development activities, particularly in a partnership arrangement, in a wide spectrum of manufacturing, processing or service industry sectors.
- Establishing, modernizing or expanding a plant in certain designated areas of Canada.
- Improving Canada's balance of payments by seeking out or expanding export markets or replacing imports.
- Improving the degree of skill, productivity or employment capability of Canadian workers.

Regional Incentives

Each Canadian province also offers monetary incentives to attract new industries or to assist in the improvement or expansion of existing enterprises. In addition to loans and grants, the government may participate in the equity of an enterprise.

The provinces generally complement, instead of duplicate, federal incentive programs, except in the area of research and development, for which significant provincial incentives are also available. Provinces also offer incentives for feasibility studies, market surveys, technical assistance and labor adjustments.

Funding may be obtained to establish or expand facilities, production equipment, antipollution or energy-control apparatuses, and working capital. The following activities may also qualify for incentives: introduction of new products or technologies; construction or improvements of tourism facilities; export financing; and, if operations or jobs are threatened, purchases of fixed assets. Secondary manufacturing, closely allied service industries and tourist operations may also qualify for assistance.

International Banking Centers

Montreal and Vancouver have been designated as international banking centers. Eligible financial institutions carrying on an international banking center business in either the Montreal or Vancouver metropolitan areas may exclude income or loss derived from such businesses in computing taxable income. International banking center activities include loans to, and deposits from, arm's-length persons not resident in Canada. For the provisions to apply, the eligible financial institution must designate the specific branches or offices in Montreal or Vancouver where the international banking center business is carried on.

Tax Incentives

Tax incentives may be available for certain enterprises.

B.2 Special Investment Considerations

Regulated Industries

Regulated industries in Canada include, among others, telecommunications, banking, insurance, trust and loan companies, media and airlines.

The federal government's review of government spending in the early 1990s provided the basis for redefining its role in the Canadian economy. As part of that process, the federal government focused on defining its regulatory responsibilities and on determining the most effective and cost-efficient method of delivering programs and services. As a result, the federal government has commercialized and privatized certain public services, reduced direct and indirect subsidies to businesses and users of government services, streamlined regulations in several target sectors and avoided bailouts of privately owned companies. In general, regulatory activity is expected to continue to encourage domestic and international competition, to ensure public health and safety, and to maintain a clean environment.

The federal government's new approach to governing is exemplified by the requirement that any significant regulatory change must be subject to a business impact test before its introduction. This and other regulatory improvements are initially targeted at the following seven sectors: financial institutions; biotechnology; health, food and therapeutic products; mining; automotive industry; forestry products; and aquaculture.

Intellectual Property

Patents. The Patent Act and Rules define the procedures for obtaining and enforcing patent rights in Canada. To obtain a patent, the inventor or assignee must file an application with the Commissioner of Patents. Under the first-to-file system, if two or more applications are filed for the same invention, the patent is granted to the application with the earliest filing date or priority date rather than to the first inventor. Priority may be claimed from applications filed within the previous two months in other countries, with certain restrictions. The average time from requesting examination of the application to granting a patent is approximately three years.

An inventor or successor must register a patent to obtain exclusive rights to the invention in Canada. Common law patent rights are not available in Canada. Patented articles are no longer required to be labeled. However, falsely marking that an article has been patented is an offense.

Patents are valid for 20 years from the date of filing. Patents filed or issued on or after 1 October 1989 are subject to annual maintenance fees. On expiration, patented inventions become public property and renewal is not available.

Canada has joined the Patent Cooperation Treaty (PCT). Under the treaty, Canadians may apply to the Canadian Patent Office for protection in any of the signatory countries, including the United States, Japan and Europe. Similarly, foreigners may designate Canada in a PCT application filed in a PCT country after 1 January 1990. Applicants must satisfy specific time limitations to apply under the treaty procedure.

In addition to being assigned outright to another party, patent rights may be licensed either exclusively or nonexclusively. The license may be limited by time and territory, and restricted to certain people and parts of the invention. The terms, including royalties, may generally be established by agreement of the parties. Assignments and exclusive licenses must be registered with the patent office. After three years, if the patentee abuses its exclusive rights by failing to adequately meet the demand for the patented article based on reasonable terms and by using the exclusive right to restrain trade, the Commissioner of Patents may grant compulsory licenses to parties other than the patentee.

Trademarks. The Trademarks Act and Regulations provide for the registration of trademarks and the enforcement of registered marks. The act prohibits the use of certain marks in business, including country flags. An owner of a trademark may apply to register the mark if the trademark satisfies all of the following requirements:

- The mark is used in Canada;
- The mark is known in Canada; and
- The mark is registered in the owner's country of origin, and it is in use in any country, or is proposed for use in Canada.

Priority of registration runs from the date the mark is adopted, which is accomplished by using it, filing an application for registration, or making the mark known in Canada. Under the Paris Convention and the Trademarks Act, an applicant who has filed an application in a country that adheres to the Paris Convention, and who then files for registration in Canada within six months of that application, may claim priority from the date of filing its foreign application if certain conditions are met. Trademarks are protected for 15 years from the date of registration and are renewable for 15-year periods without limitation.

Registration confirms the title that has been established through the owner's adoption of the trademark. Registration is not compulsory for the use or enforcement of a mark. The owner's rights of an unregistered mark are established and protected under the Trademarks Act and common law.

After registration, a trademark may be deemed invalid if it was registered or used improperly. An owner or registered user must use a trademark to maintain its validity. Registration may be cancelled if the trademark is not used.

Copyrights. Copyright legislation is contained in the Copyright Act and Rules. The author is the first owner of the copyright of the author's work unless the work was created under an employment contract. In such circumstances, the employer is the first owner. Copyright protection results automatically if, at the date of creating the work, the author is a Canadian citizen or a person ordinarily resident in Canada, or is a citizen who is subject to or ordinarily resident in a country belonging to the Berne Copyright Convention, the Universal Copyright Convention (UCC), the Rome Convention, or the World Trade Organization (WTO) agreement. In certain cases, an author may obtain automatic copyright protection if his or her work was first published in one of the countries included among those who have signed the Berne, UCC or Rome conventions, or the WTO agreement, even if he or she is not a citizen or subject of Canada or one of those other countries.

Registration is therefore generally not necessary to protect one's work. Voluntary registration, however, provides evidence of ownership that may be helpful if ownership is disputed or if a copyright is violated. Published works need not be marked to retain copyright protection. Marking is nevertheless routine and takes the form of the symbol ©, the name of the owner and the year of first publication.

A copyright is effective for the life of the author plus 50 years. Exceptions to this rule apply to unknown authors, Crown copyrights, cinematographic works, photographs, posthumous works and joint authorship.

An assignment or license of a copyright must be set forth in a written document signed by the owner and registered to protect the licensee's or assignee's interest for purposes of determining priority. Compulsory licenses are granted in specific, limited situations.

Industrial Designs. The Industrial Design Act provides some protection to the author of an industrial design to the extent that it protects the appearance of a useful article or aspects of the design intended to make the article more visually appealing. Features dictated by a utilitarian function may not be protected.

The exclusive right to an industrial design is acquired by registration under the Industrial Design Act. Registration of industrial designs in Canada is necessary to protect the design or its assignee and to prevent nonowners from applying the design. The author of a design may apply for and obtain registration, which must occur within one year of the publication of the design anywhere in the world.

The initial term of registration is five years, with an additional five-year renewal term. Although marking is no longer mandatory, all articles or their labels may be marked with a capital letter "D" in a circle, followed by the name of the proprietor. If the articles are not so marked, an infringer who establishes that he or she did not know the design was registered may be able to avoid paying damages.

Registered designs may be licensed or assigned under written and registered agreements.

Trade Secrets and Confidential Information. A person may not want or be able to rely on patent, trademark, copyright or industrial design legislation to protect information, ideas, designs, technology and similar items. Intellectual property in this category that can be classified as a trade secret or confidential information still may be afforded legal protection. Both common law and civil law offer protection to the owner or assignee of trade secrets and confidential information by preventing those with access to that information from using or disclosing it. The law does not prevent someone from using general skill and knowledge, including methods of doing business or procedures generally known in the industry, that were acquired while employed by or in dealing with another business. In contrast, customer lists, secret recipes and plans may be protected for as long as they remain secret, subject to certain restrictions.

Privacy Legislation

The new economy has greatly increased the collection and use of personal and private information for business purposes. Governments worldwide have responded with legislation regulating the use of personal information. In Canada, the federal government enacted the Personal Information Protection and Electronic Documents Act (PIPEDA), which took effect on 1 January 2001. The legislation attempts to strike a balance between protecting an individual's right to privacy and the need for various organizations to use and commercially exploit personal information under reasonable circumstances.

PIPEDA regulates the private sector's collection, use and distribution of personal information, both in print and electronically. Nearly every piece of customer and employee data that companies collect, use and transmit is affected by PIPEDA. The act imposes certain privacy obligations on organizations that collect, use or disclose personal information; however, its core principal generally prohibits any collection, use or disclosure of personal information without the individual's consent.

Environmental Law

Federal and provincial authorities share responsibility for environmental policy. In practice, however, the provinces have primary authority over pollution control, in accordance with their rights over property within their borders. Provincial responsibility over local authorities also gives the provinces powers in areas including sewage and garbage disposal.

Under the Canadian Environmental Assessment Act, the federal government controls broader activities and projects that may be affected by, or contribute to, pollution, including shipping, public works (dams and harbors), inland fishing and lake improvement. The Canadian Environmental Protection Act of 1999 (CEPA) recognizes the importance of the ecosystem and focuses on pollution prevention as a national goal. Under this act, the Minister of the Environment can request the development and implementation of pollution prevention plans by facilities that manufacture or use toxic substances. The CEPA registry is a comprehensive source of information related to activities designated under the act, including the use of toxic substances.

The environment ministry in each province grants certificates of approval in accordance with local laws and regulations. Companies are generally required to submit detailed applications showing that contaminants emitted from their premises into the water or the air fall within prescribed limits. Strict regulations also apply to dumping toxic waste. However, in the last few years, certain provincial governments, particularly Ontario, have moved to reduce the regulatory burden of environmental protection through self-regulatory approaches. One example includes the development of an emissions trading market, which is likely to grow substantially in the future. Many environmental measures encourage corporate recycling, and households in most cities participate in garbage-recycling programs. Fines on corporations violating environmental regulations have become increasingly steep in recent years, and prosecutions have become more frequent.

Language Requirements

Because Canada is a bilingual country, companies operating in Quebec, as well as in the rest of the country, must conform to linguistic requirements. For example, inscriptions on a product, or on the product's container, packaging, documentation

or an accompanying object including instructions and warranties, must be written in both French and English. Certain requirements also apply to doing business in Quebec.

Doing Business in Quebec

Quebec houses approximately one quarter of Canada's population and produces more than 22% of the country's GDP. Quebec's largest city is Montreal, with a metropolitan population of approximately 3.5 million residents, more than 40% of the province's population.

Quebec is distinguished from other Canadian provinces in several respects, most notably because 80% of its population predominantly speaks French. The Charter of the French Language imposes certain obligations for using the French language at work and in commerce, education, legislation and professional orders.

Companies interested in doing business in Quebec must ensure that its products or services address the requirements and needs of the Quebec market. Customs, attitudes and cultural differences distinguish Quebec from the English-speaking provinces.

The governing Parti Quebecois (PQ), which has a platform that demands sovereignty for Quebec, has been strongly supported by just less than half of the Quebec population. However, another referendum on the issue of sovereignty for Quebec is not expected in the near future, and the province's political environment remains stable.

Government-Owned Industries and Privatization

Commercialization and privatization initiatives are designed to reduce government spending and debt, as well as increase competition and the efficiency of service delivery. Under the federal Liberal government, commercialization initiatives have transferred government-owned and operated services to private entities controlled by the principal users of these services, which are operated on a cost-recovery basis. This model has been used primarily in the transportation sector, in which the federal government has commercialized major airport operations, the air navigation system (now known as NavCan) and major segments of the marine sector.

The federal government recently carried out an initial public offering for shares in Canadian National, which operates rail freight services in North America. The government has also indicated its intention to sell its remaining 70% interest in Petro-Canada, the largest Canadian-owned oil and gas company. This activity follows a period of several major privatizations under the preceding Progressive Conservative government in areas including aircraft manufacturing and airlines, and telecommunication services. However, no further major privatizations are expected at the federal level.

Considerable debate exists at the provincial and local government levels, particularly in Alberta and Ontario, with respect to privatizations in areas including electric power and water utilities, and retail sales of alcohol used for beverages. Quebec is the only Canadian province that has a comprehensive industrial development plan for continued provincial involvement in the economy.

Restrictions on Foreign Investment

Foreign Ownership of Business

Under the Investment Canada Act of 1985, foreign capital has equal status with Canadian funds for most purposes. Except for acquisitions above specific thresholds, investors must only notify the investment-review division of Industry Canada (see *Investment Canada Act*, below) of an acquisition or new venture within 30 days of the transaction. To limit the growth of foreign-controlled enterprises in certain industries, federal statutes regulate the amount of allowable foreign ownership. These restrictions apply in the telecommunications, banking, media, airline, insurance, trust and loan industries.

The North American Free Trade Agreement (NAFTA) also commits Canada to maintaining and strengthening an open investment climate. For further details regarding NAFTA, see Section B.3, page 24.

Investment Canada Act

The Investment Canada Act (ICA) promotes investment in Canada by both Canadians and foreigners. Investment Canada was launched to help investors identify and exploit domestic and international investment. In early 1994, Investment Canada was disbanded and its activities were divided between the Department of Foreign Affairs and International Trade and the Department of Industry. The Department of Foreign Affairs and International Trade is now responsible for all investment promotion and research. The Department of Industry handles notifications of new investments and applications for foreign-investment approval through Industry Canada.

The ICA applies to foreign investors who acquire control of or establish Canadian businesses. Subject to limited exemptions, such transactions by foreigners are either "notifiable transactions," meaning the amounts involved must be reported to Industry Canada prior to implementation or within 30 days thereafter, or "reviewable transactions," meaning the amounts involved exceed certain prescribed thresholds requiring approval by the Minister under the ICA prior to implementation.

For purposes of notifiable transactions, the ICA requires notice of certain limited information concerning the proposed transaction and the parties. Approvals are not required to implement notifiable transactions, except for transactions involving Canada's cultural heritage or national identity, as described below.

For purposes of reviewable transactions, the following thresholds apply under the ICA for direct and indirect acquisitions of Canadian businesses by foreign investors:

- If a foreign investor makes a direct or indirect acquisition of a Canadian business with assets of C$5 million or more; or
- If a foreign investor acquires a foreign parent corporation that has a Canadian subsidiary with assets of C$50 million or more, or if the acquired Canadian subsidiary represents more than 50 percent of the assets of the acquired group and the Canadian subsidiary has assets of C$5 million or more.

Special higher thresholds apply under the ICA to foreign investors that are ultimately controlled in a WTO country. Generally, for such foreign investors, most acquisitions of control of Canadian businesses are reviewable only if such businesses have assets equal to or greater than C$209 million. This threshold is indexed annually under a formula set forth in the ICA. Certain indirect acquisitions of control are no longer reviewable. However, the special higher thresholds generally applicable to WTO investors do not apply for investments to acquire control of a Canadian business that engages in the production of uranium and owns an interest in a uranium-producing property in Canada; provides a financial service; or provides transportation services.

None of the above thresholds applies to a proposed acquisition of control of a Canadian business that is related to Canada's cultural heritage or national identity, as prescribed by the ICA. Such acquisitions are always subject to review and must be approved by the Minister of Canadian Heritage.

Subject to certain limited exceptions, the ICA prohibits a foreign investor from implementing a reviewable transaction until the minister responsible under the ICA has approved the transaction. The minister's decision is based on whether the investment is likely to provide a net benefit to Canada, taking into account factors including the effect of the investment on the level and nature of economic activity in Canada; the degree and significance of participation by Canadians in the business; the effect of the investment on productivity, efficiency and technological development; the effect of the investment on competition in Canada and on Canada's ability to compete within world markets; and the compatibility of the investment with national industrial, economic and cultural policies.

The standard period for review is 45 days, although the minister may extend the 45-day period to a maximum of 75 days.

Provincial Restrictions

The provinces do not prohibit foreign investment, except to the extent that they may be represented in Industry Canada proceedings. Exceptions to this exist in certain provinces regarding specific types of real property and specific types of business undertakings relating to the wholesale distribution of paperbacks and periodicals.

Directors' Residency Requirements
Corporate legislation in most Canadian jurisdictions imposes residency and citizenship requirements upon a corporation's board of directors. For example, the federal Canada Business Corporations Act (CBCA) requires a majority of the directors of a CBCA corporation to be resident Canadians, subject to a limited exception for holding corporations that meet certain prescribed conditions. If a CBCA corporation has fewer than three directors, all of the directors of that corporation must be resident Canadians. However, the federal government has recently enacted new legislation, which has not yet been proclaimed in force, that amends the CBCA provisions relating to the residency requirements for directors of CBCA corporations. These amendments relax the residency requirements for directors by only requiring that at least 25% of the directors of a CBCA corporation be resident Canadians. Also, if a corporation has less than four directors, then only one must be a resident Canadian under the new amendments. However, the amendments provide that with respect to businesses that operate in Canada in a prescribed business sector, as well as businesses subject to other federal legislation that require specified levels of Canadian ownership or control, a majority of their directors must be resident Canadians. Similarly, companies that are required by federal legislation to restrict the number of voting shares that any one shareholder may hold, own or control, must also have a majority of resident Canadian directors under the amendments. However, the amendments provide a limited exception to the majority rule, stating that holding companies meeting certain requirements must have only one-third of their board members be resident Canadians.

Corporate legislation of most provinces and territories in Canada contain similar residency requirements, which may range from requiring a majority of board members to be resident Canadians, to no requirement at all.

Foreign-Exchange Controls
Canada does not impose exchange controls. The Canadian dollar is fully convertible. No restrictions apply to the repatriation of capital or to the transfer of profits and dividends. However, dividends are subject to withholding tax.

Competition and Price Policies
Canada regulates a broad range of restrictive trade practices on goods and services. Under the Competition Act, the Competition Bureau monitors mergers and takeovers of corporations and banks. The bureau monitors business transactions in Canada to determine whether any intervention is required. Criminal offenses, including conspiracy and misleading advertising, are referred to the Attorney General for prosecution. The Competition Tribunal reviews civil cases and is empowered to prohibit or dissolve mergers, prohibit anticompetitive acts and issue orders directing offenders to divest themselves of assets or shares.

For details regarding merger and acquisition transactions and the Competition Act, see Section C.2, page 29.

B.3 Regional and International Trade Agreements and Associations

Canada is a member of the North American Free Trade Agreement (NAFTA), World Trade Organization (WTO), the Commonwealth of Nations, United Nations (UN), North Atlantic Treaty Organization (NATO), Organization of American States (OAS), the Asia-Pacific Economic Cooperation (APEC) and La Francophonie. Through its activities in these and other organizations, Canada seeks to promote the rule of law in international relations and to stimulate economic development. Participation in the Economic Summit of the Group of Seven Industrialized Nations (the G-7) allows Canada to strengthen the multilateral economic system and advance Canadian economic interests. Canada is also a member of the Organization for Economic Cooperation and Development (OECD), which promotes economic and social progress in both developed and underdeveloped countries, and also belongs to other international trade and finance groups.

NAFTA entered into force on 1 January 1994 between Canada, Mexico and the United States, superseding the 1988 U.S.-Canada Free-Trade Agreement (FTA). NAFTA's objectives include the following:

- Establishment of clear, binding protection for intellectual-property rights;
- Development of a fair and expeditious framework for dispute settlement;
- Deregulation of cross-border cargo traffic; and
- Improvement of environmental legislation.

NAFTA progressively eliminates tariffs and quotas that act as barriers to the flow of goods and services between Canada, Mexico and the United States. NAFTA countries represent the world's largest free-trade zone in terms of total combined GDP.

NAFTA's full implementation by 2003 will effectively eliminate tariffs on all North American industrial products and on 95% of the agricultural products traded between Canada, Mexico and the United States. Mexican nontariff barriers, including import quotas and local-content requirements, have already been eliminated.

NAFTA broadens the principles of nondiscrimination governing the services trade established under the U.S.-Canada FTA and extends them to Mexico. The agreement guarantees access to the Mexican market by U.S. and Canadian service firms without requiring these firms to relocate operations and employees to Mexico. It also eliminates restrictions on data processing and on certain telecommunications services.

B.4 Major Trading Partners and Leading Imports and Exports

Trading Partners

Canadian trade policy aims to secure Canada's place in the international trading system and improve the country's access to world markets. The Department of Foreign Affairs and International Trade is implementing an ambitious trade development strategy that focuses on Asian-Pacific markets, the European Union and the United States. As part of this strategy, the prime minister has led "Team Canada" trade missions to increase Canadian businesses' share of Asian markets.

Canada's international trade patterns increasingly concentrate on the United States, in part because of the favorable conditions created by NAFTA (see Section B.3, page 24). Canada and the United States have the world's largest trade partnership, with bilateral trade reaching C$700 billion in 2000. Between 1995 and 2000, trade between the two countries grew at a compound average annual rate of 10.4%. The United States conducts more trade with Canada than with any other country.

Canada's second major single-country trading partner is Japan. However, the EU as a whole is a larger trading partner. Bilateral trade between Canada and Japan is less than one-tenth of Canada's trade with the United States.

For a listing of Canada's major trading partners, see Appendix 4, page 76.

Leading Imports and Exports

International trade in goods and services represented almost 74% of Canada's output in 1996. Canada's export share of GDP is higher than any other G-7 country. Leading Canadian imports include motor vehicles, machinery, communications equipment, chemicals and crude petroleum. Leading exports include motor vehicles, wood-pulp, newsprint, lumber, crude petroleum and machinery. For a table of Canada's leading imports and exports, see Appendix 5, page 77.

B.5 Importing and Exporting

Restrictions

The Export and Import Permits Act grants the government power to impose trade restrictions. Canada does not license imports, except for a few agricultural and dairy products, carbon and specialty steel, certain weapons, and certain textile and clothing items. The federal government is broadly opposed to import controls. However, trade disputes have led the government to target certain imports from the United States and to threaten imports from several other countries. For example, a surge in Canadians shopping in the United States in the late 1980s resulted in the imposition of various measures, including special handling fees on mail orders from the United States.

Customs Duties

Canada applies a most-favored-nation (MFN) tariff to imports from most countries. Lower rates of duty are levied on most imports from developing third world countries under the Generalized System of Preference and from certain Commonwealth countries. NAFTA provides for a staged phase-out of tariffs with the United States in 1998 and Mexico in 2003 (see Section B.3, page 24). Canada entered into similar free-trade agreements with Israel and Chile in 1997, and signed an agreement with Costa Rica in 2001.

In 1998, Canada replaced its longstanding customs tariff with a simplified and transparent system intended to make tariffs more responsive to international competition. The federal government has extensive powers to reduce or abolish duties and to authorize temporary remission of duties and taxes on articles used as materials in Canadian manufacturing. The federal goods and services tax, excise tax and provincial retail sales taxes are also levied on both imports and domestic products and services, which may add considerably to their cost.

Valuation

Duties may be either specific or *ad valorem*. Imported goods are usually valued at their transaction value, which is the price paid or payable for the goods when sold for export to Canada. Canadian legislation in this area is similar to that in the United States and EU countries.

Classification and Documentation

Canada has adopted the Harmonized Commodity Description and Coding System for import tariff classification. Regardless of the type of shipment or its value, Canadian customs authorities require that certain documentation be presented before the goods are released to the importer.

Antidumping Regulations

Canada's antidumping law imposes duties if, on receipt of a complaint from Canadian producers, the customs authorities determine that foreign goods are being sold to Canada for less than the selling price in the exporting country, and if the Canadian International Trade Tribunal determines that the Canadian producer has been or may be injured.

C. Companies

C.1 Forms of Enterprise

Corporations

Canadian companies may be incorporated under the federal Canada Business Corporations Act (CBCA) or under any of the equivalent provincial or territorial corporations' acts. In addition to providing limited liability to their shareholders, corporations offer many other business advantages. Under the statutes of most Canadian jurisdictions, a corporation is endowed with the status of a natural person and, consequently, may own property, carry on business, possess rights and incur liabilities.

Partnerships

A partnership is formed by two or more individuals or corporations that carry on a business for profit. Unlike a corporation, a partnership is not a separate legal person. Partnerships are distinguishable from joint ventures (see *Joint Ventures*, page 28).

Canadian law recognizes two forms of partnerships—general and limited. Each partner of a general partnership has unlimited liability for the debts and obligations of the partnership, regardless of whether the partnership was established by a written agreement. General partnerships are governed by provincial law and registration requirements. Limited partnerships are created under provincial statutes that require registration. One or more partners in a limited partnership must be designated as a general partner with unlimited liability for debts and obligations of the partnership. The liability of each of the remaining partners is limited to that person's investment.

Unlimited Liability Companies

The Companies Act of the Province of Nova Scotia provides for the incorporation of an "unlimited company," commonly referred to as an unlimited liability company or ULC. The ULC has become very popular in recent years because it may be treated as a flow-through entity for U.S. tax purposes and as a corporation for Canadian tax purposes. The most notable feature of a ULC is that the members (typically its shareholders) have unlimited liability against the ULC's creditors. The unlimited liability of the members is realized upon the winding-up of the ULC, typically upon a petition to the court by its creditors, if the creditors' liabilities have not been satisfied by the ULC.

Sole Proprietorships

A sole proprietor is an individual who carries on business for his or her own account without the use of an intermediary organization or the participation of other individuals, except employees. The sole proprietor is entitled to all profits of the business and is personally responsible for all losses and liabilities.

Co-ownership

Co-ownership is a relationship between two or more persons who own property jointly. Partnership law in several Canadian jurisdictions provides that such a relationship alone does not result in a partnership, even if the co-owners share in the profits generated by the property. The primary difference between ownership of property by co-owners and by a partnership is that in the case of co-ownership, each co-owner continues to own, and is free to deal with, its separate interest in the property, subject to the terms of any agreement between the co-owners. In the case of property owned by a partnership, the partners have no separate interest in the partnership property. Generally, each partner's right is limited to a division of the profits generated from the partnership property. If a partner wishes to sell its interest in the partnership, the sale takes the form of a divestiture of a partnership interest, not an interest in the assets of the partnership.

Joint Ventures

Canadian law does not expressly define the term "joint venture" and various meanings have been attributed to it. In its most generic sense, a joint venture is any combination of resources by two or more persons to conduct a commercial venture jointly under agreed rules. Defined in this manner, a joint venture may take the form of co-ownership of property, a partnership, a limited partnership, a corporation or a business trust. The parties to the joint venture enter into a joint venture agreement that governs the creation, implementation and rules of the joint venture.

Trusts

In a trust, legal title to real or personal property is held by one person for the benefit of another. In addition to holding legal title to the property, the trustee is endowed with powers to manage it. Absent bad faith or negligence by the trustee, the beneficiaries have little right to impose their will on the trustee. Because of the separation between the beneficial ownership and the management of trust property, trusts are rarely used for active business ventures in Canada. Trusts are used primarily to hold investments, defer taxes and accomplish estate-planning objectives. The laws governing trusts in Quebec differ from those in other Canadian jurisdictions.

Branches of Foreign Companies

To establish a branch in Canada, a foreign company must register separately in each province where it has a place of business. Registration procedures differ among the provinces.

Structures Most Often Used by Foreign Investors in Canada

Foreign corporations conducting business in Canada may operate in one of the following ways: without a formal presence in the country; through branch operations; or through a Canadian subsidiary corporation. Foreign investors may also use partnerships, joint ventures or trusts in certain circumstances.

Direct and indirect investments in Canada, whether through either a branch or a subsidiary, are subject to notification or review procedures under the Investment Canada Act (see Section B.2, page 21) and the Competition Act (see Section B.2, page 23).

No Formal Canadian Presence
A foreign business may decide not to establish a formal legal entity in Canada but merely to sell to the Canadian market from the foreign jurisdiction. Non-resident representatives may visit Canada on a temporary basis to sell products and to service customers.

Most provinces in Canada have rules providing that foreign corporations must acquire a license to carry on business in the province. The level of activity required before a foreign corporation is deemed to be carrying on business varies by province.

Branch Operations
A foreign organization may choose to establish a division or branch in Canada. However, establishing a permanent presence raises tax and corporate law considerations. In addition, the establishment of a branch operation in a province subjects a corporation to the province's licensing requirements.

Corporate Subsidiary
For commercial reasons, a foreign organization may prefer to operate in Canada through a subsidiary instead of through a branch.

C.2 Mergers and Acquisitions

The ownership and internal balance of power within a Canadian corporate entity may be structured and restructured in numerous ways. Most foreign investors acquire an ownership interest in a Canadian corporation through the following transactions:

- Acquisition of the assets of an operating business;
- Acquisition of the voting shares of a corporation that carries on business in Canada;
- Acquisition of control of a foreign resident corporation that in turn has Canadian-based subsidiaries;
- Merger of corporations and continuance by the new entity of the businesses of the merged corporations; or
- A combination of corporations that carry on business in concert to achieve a specified goal.

The Competition Act (see Section B.2, page 23) and the Investment Canada Act (see Section B.2, page 21) are two of the statutes that impose review requirements for mergers, business combinations and acquisitions. The Competition Act (the Act) is the primary antitrust law in Canada, and is administered by the

Commissioner of Competition who heads the Competition Bureau. The Competition Tribunal is a specialized tribunal that has jurisdiction in various competition law matters, including mergers.

A merger is defined broadly under the Act to include mergers and acquisitions, whether by assets, shares, amalgamations or business combinations. The Act has a notification requirement for certain merger transactions. The basic test under the Act for assessing a merger or an anticompetitive act is whether the merger or proposed merger will or is likely to prevent or lessen competition substantially. If the commissioner believes a transaction meets this basic test, the commissioner may apply to the tribunal either before the transaction closes for an order to prevent the parties from proceeding with the merger or part of the merger, or within three years after the transaction closes for an order to dissolve the merger or to dispose of certain assets or shares of the parties involved in the merger.

Under the Act, to determine whether the basic test is met, the tribunal may consider the following factors:

- Availability of foreign competition in the relevant market;
- Likelihood of business failure of one or more of the merger parties;
- Availability of substitute products or services for those of the merger parties;
- Entry barriers to the relevant market;
- Extent to which effective competition would remain following the merger;
- Likelihood of removal of a vigorous and effective competitor; and
- Nature and extent of change and innovation in the relevant market.

The Act provides an exception to this test if the merger or proposed merger will, or is likely to, result in gains in efficiency that will be greater than, and will offset the effects of, any prevention or lessening of competition. A substantive merger issue will likely be raised only if the proposed merger is a merger with a competitor, supplier or customer. The commissioner's Merger Enforcement Guidelines provide that the commissioner is unlikely to challenge a merger unless the merged entity's share of the relevant market will be more than 35% or if the merged entity has a market share of more than 10% and is one of the four largest firms that, together, account for more than 65% of the relevant market.

The Act provides for an advance ruling procedure that allows parties to a proposed merger to apply for a binding advance ruling from the commissioner regarding the proposed merger. If the commissioner is satisfied that he or she would not have sufficient grounds on which to apply to the tribunal, the commissioner may issue an advance ruling certificate (ARC). The ARC has the following two effects: if the transaction qualifies as notifiable, the parties are excused from the notification requirement; and the commissioner may not later apply to the tribunal to undo the transaction unless the commissioner obtains new or different information. The Competition Bureau also accepts applications for advisory opinions on mergers.

The Act requires that persons proposing a merger exceeding the relevant thresholds for notifiable transactions as set forth in the Act must notify the commissioner in advance of the completion of the transaction, subject to limited exceptions. Two thresholds apply to notifiable transactions, both of which must be exceeded to give rise to the pre-notification obligation. The first threshold, commonly referred to as the "size of parties threshold," is met if the parties to the transaction, together with their affiliates, have assets in Canada or annual gross revenues from sales in, from or into Canada that exceed C$400 million. The second threshold, commonly referred to as the "size of transaction threshold," varies according to the nature of the transaction as follows:

- For a proposed acquisition of assets of an operating business, the value of the assets or the annual gross revenues from sales in or from Canada generated from those assets exceeds C$35 million.
- For a proposed acquisition of voting shares of a corporation carrying on an operating business, the value of the assets of the acquired corporation or the annual gross revenues from sales in or from Canada generated from those assets exceeds C$35 million, and the persons acquiring the shares acquire an interest in the corporation exceeding either 20% of a public corporation or 35% of a private corporation. If the parties already exceed the applicable 20 or 35% shareholding test, then the test is whether the share purchase results in more than a 50% interest.
- For a proposed corporate amalgamation, if one or more of the corporations carries on an operating business, the value of the assets of the continuing corporation or the annual gross revenues from sales in or from Canada generated from those assets exceeds C$70 million.
- For a proposed combination, the value of the assets of the continuing business or the annual gross revenues from sales in or from Canada generated from those assets exceeds C$35 million.

If the parties exceed the pre-notification thresholds, the parties must notify the commissioner and provide information about the parties and transaction before completing the transaction. Once the pre-notification is filed, the parties to the merger may close the transaction only upon expiration of the relevant waiting period under the Act, which varies depending upon the type of pre-notification filed, and provided that the tribunal has not, upon the application of the Commissioner, issued an interim order preventing completion of the transaction.

All mergers, regardless of whether the pre-notification thresholds are met, are susceptible to examination within three years of completion by the tribunal to determine if they have, or are likely to have, the effect of preventing or substantially decreasing competition in a definable market.

C.3 Corporate Taxes at a Glance

Corporate Income Tax Rate (%)	26.12 (a)
Capital Gains Tax Rate (%)	13.06 (a)(b)
Branch Tax Rate (%)	26.12 (a)
Withholding Tax (%)	
Dividends	25 (c)
Interest	25 (c)
Royalties from Patents, Know-how, etc.	25 (c)
Branch Remittance Tax	25 (d)
Net Operating Losses (Years)	
Carryback	3
Carryforward	7

(a) The rate is applied to income that is not eligible for the manufacturing and processing deduction or the small business deduction. The calculation of the rate is discussed in Section C.4, page 33. Additional tax is levied by the provinces and territories of Canada, and the combined federal and provincial or territorial rates vary from 35.16% to 43.12% (2001 rates).

(b) 50% of capital gains is subject to tax.

(c) Final tax applicable only to nonresidents. The rate may be reduced by a tax treaty (see Section C.4, page 35).

(d) This tax is imposed in addition to the regular corporate income tax. For details, see Section C.4, page 33. The rate may be reduced by a tax treaty.

C.4 Taxes on Corporate Income and Gains

Corporate Income Tax

For Canadian income tax purposes, a corporation's income generally consists of income from business or property and net taxable capital gains realized on any disposition of the corporation's capital assets.

Corporations resident in Canada (whether owned by Canadians or nonresidents) are taxed on their worldwide income from all sources, including income from business or property and net taxable capital gains. Nonresident corporations are taxed only on their Canadian-source income. In general, a corporation is deemed to be resident in Canada if it is incorporated in Canada or has its central mind and management located there.

If a tax treaty exists between Canada and the country in which the taxpayer is resident, the determination of whether a nonresident is taxable in Canada may be restricted or modified, and lower rates may apply. In general, Canada's tax treaties provide that residents of the other country are subject to Canadian tax on income derived from carrying on business in Canada only if the nonresident has a Canadian permanent establishment.

Rates of Corporate Tax

Corporations are taxed by the federal government and by one or more provinces or territories. The basic rate of federal corporate tax is 38%, but it is generally reduced to 35% by a 3 percentage point corporate tax rate reduction and further reduced to 25% by an abatement of 10 percentage points on a corporation's taxable income earned in a province or territory. In addition, a surtax of 1.12% is imposed (calculated as 4% applied to a base of 28%). Provincial and territorial tax rates are added to the federal tax and generally vary between 9% and 17% of taxable income.

The federal government and the provincial and territorial governments may apply lower rates of tax to active small business earnings and earnings derived from manufacturing and processing.

Nonresident corporations carrying on business in Canada through a branch are taxable at the full corporate rate on their net business income earned in Canada, and they must pay an additional tax of 25% on after-tax income, subject to an allowance for investment in Canadian property. This branch tax may be reduced by treaty.

For a sample corporate tax calculation, see Appendix 6, page 78.

Dividends

In general, dividends paid by one Canadian corporation to another are tax-free. However, to prevent the use of private companies to obtain significant tax deferrals on portfolio dividend income, such corporations are subject to a special 33 1/3% refundable tax on dividends received from portfolio investments. Additional taxes may be imposed on dividends paid on certain preference-type shares.

Dividends paid by a Canadian company to a Canadian resident individual are generally taxable, but the individual also receives a tax credit because the income has already been taxed within the corporation. A dividend from a foreign affiliate may be exempt from tax (see Section C.5, page 37).

Capital Gains and Losses

The taxable portion of capital gains and the deductible portion of capital losses is 50%.

Residents

Proceeds in excess of cost from the disposition of capital assets are generally taxed as capital gains. For depreciable assets, tax depreciation previously claimed that is recovered on disposition is generally fully included in income.

The deductible portion of capital losses (other than allowable business investment losses) in excess of capital gains is termed "net capital loss" and may be carried back three years and carried forward indefinitely, but may be applied only against taxable capital gains.

If a person or group of persons acquires control of a corporation, net capital losses incurred before the change of control may not be deducted in a year after the acquisition of control. Also, the carryback of capital losses to years prior to such change of control is prohibited. A flowthrough of net capital losses is provided for certain amalgamations and liquidations.

If a sale of what might otherwise be a capital asset is regarded either as a sale in the course of a taxpayer's business (such as dealers in real estate, securities or art) or as an undertaking in the nature of normal trading, the gain or loss is fully taxable or deductible.

Nonresidents

Nonresidents who realize capital gains are required to pay Canadian tax on their net taxable capital gains arising on the disposition of taxable Canadian property, subject to applicable tax treaties. Such property includes the following:

- Land situated in Canada;
- Shares of Canadian private corporations;
- Shares of Canadian public corporations in limited circumstances;
- Property used in a business carried on by a nonresident in Canada;
- An interest in a partnership if more than 50% of the value of the partnership's property was attributable to taxable Canadian property at any time in the 60 months preceding the disposition;
- Interests in certain trusts resident in Canada; and
- Shares of a nonresident corporation or an interest in a nonresident trust if, at any time in the 60 months preceding the disposition, more than 50% of the value of the interest and the value of the property owned by the nonresident corporation or nonresident trust was attributable to certain types of property.

A nonresident vendor of taxable Canadian property, except for qualified excluded property, either must obtain a tax clearance certificate from the Canada Customs and Revenue Agency (CCRA) and provide acceptable security, or must pay tax on the disposition at the time of sale. Unless the vendor obtains a tax clearance certificate, the purchaser, if he or she knows the vendor is a nonresident, must withhold and pay to the federal government up to 25% of the cost of the property.

Administration

A corporation's tax year usually ends on the same date as the financial statement year-end. If a change of control occurs, the corporation is deemed to have a tax year ending immediately before the change of control.

Corporate income tax returns must be filed within six months following a corporation's tax year-end. Nonresident corporations must file a Canadian income tax return if they carry on business in Canada or dispose of taxable Canadian property during the tax year. Nonresident corporations claiming relief from Canadian tax under a tax treaty with another country must disclose detailed information regarding their activities in Canada.

A penalty is levied on returns that are filed late, equal to 5% of the unpaid tax at the required filing date, plus an additional 1% per month, not to exceed 12 months, of such unpaid tax for each month that the return remains unfiled. Repeat offenders may be liable to additional penalties. Nonresident corporations that carry on business in Canada or dispose of taxable Canadian property during the tax year may be subject to an additional penalty of up to C$2,500, regardless of whether any tax is payable.

Federal and provincial corporate tax installments must be made monthly during the corporation's tax year. The remaining balance of taxes owed must be paid by the end of the second month following the tax year-end. For Canadian-controlled private corporations carrying on an active business, the applicable due date is the end of the third month following the tax year-end.

Interest is charged on late or deficient tax payments based on the prescribed rate. The prescribed rate can vary each quarter. At the time of writing, it is 9%. A penalty may be applied for late or deficient tax installments, equal to 50% of the installment interest payable for the year in excess of the greater of C$1,000 or 25% of the interest that would have been payable if no installments had been made.

Foreign Tax Relief

Taxpayers resident in Canada may deduct from their Canadian tax liability a credit for income or profits tax and for withholding tax paid to another country. The foreign tax credit is calculated separately for foreign business tax and foreign nonbusiness tax on a country-by-country basis. If a Canadian company receives dividends from a foreign affiliate, the normal foreign tax credits are replaced by either a complete or partial exemption for the dividend income (see Section C.5, page 37).

Canada has entered into double tax treaties with many countries. For a list of withholding tax rates under these treaties, see Appendix 7, page 80.

Tax Credits

Certain corporations may qualify for the manufacturing and processing profits (M&P) credit. For further details, see Appendix 6, page 79.

C.5 Determination of Taxable Income

Starting Point for Determining Taxable Income

Taxable profits are computed in accordance with common principles of business or accounting practice, modified by certain statutory provisions in the Canadian Income Tax Act.

Deductions
In general, only 50% of meal and entertainment expenses is deductible for income tax purposes.

Small Business Deduction
Certain corporations may qualify for the small business deduction (SBD). For further details, see Appendix 6, page 79.

Inventories
For tax purposes, inventories may be valued at the lower of cost or fair market value (as per the financial statements), or at fair market value. The last-in, first-out (LIFO) basis is not permitted for tax purposes, despite its acceptability for accounting purposes in certain circumstances. Corporations may use a different inventory valuation method for tax purposes than the one used for accounting purposes.

Provisions
In general, provisions, including warranty reserves, are not deductible for income tax purposes. Only actual expenses incurred are tax-deductible.

Depreciation and Amortization Allowances
Depreciation or amortization included in the financial statements is added back, while tax depreciation, generally calculated on a declining-balance basis at prescribed rates beginning when the asset is available for use, is deducted for tax purposes. The deduction is generally limited in the first year the asset is available for use. Tax depreciation may be fully or partially claimed at the taxpayer's option.

The following are the depreciation rates under the declining-balance method for major categories of assets.

Asset	*Rate (%)*
Commercial and industrial buildings	4
Office equipment	20
Motor vehicles	30
Plant and machinery	20*

* For plant and machinery used in manufacturing and processing, the rate is 30%.

Capital assets are generally pooled into various classes, but a company may elect to include individual pieces of certain types of equipment in separate classes. In general, if an asset is disposed of, the balance of the assets in the class is reduced by the proceeds from the disposition. However, if the asset is the only asset in the

class and if the proceeds from the disposition exceed the tax value of the class after depreciation, the excess is recaptured and is subject to tax at the regular corporate tax rates. If the asset is the only asset in the class and if a balance remains after the proceeds are charged to the class, the balance may be deducted as a terminal loss.

Restrictions on Interest Deductions
Canada imposes a thin-capitalization rule limiting the ability of nonresidents to withdraw profits through interest charges. The interest deduction is restricted if interest is paid by a Canadian resident corporation to a specified nonresident on debt exceeding two times the shareholder's equity in the corporation. A specified nonresident is either a nonresident shareholder who, either alone or with other persons not at arm's length, owns 25% or more of the issued shares of any class of the corporation or any nonresident (including a subsidiary of the Canadian corporation) who deals at other than arm's length with such a shareholder. The thin-capitalization rule does not apply to a branch of a foreign corporation.

Related Companies

Consolidated Returns
Canada does not allow consolidated tax reporting for related companies and does not provide relief for group losses.

Transfer Pricing
Under Canada's transfer-pricing rules, acceptable transfer-pricing methods are those recommended by the Organization for Economic Cooperation and Development (OECD). These methods include comparable uncontrolled price, resale price and cost-plus. Other methods may be used if the result obtained is similar to the result that would be obtained from an arm's length transaction. It is possible to enter into advance-pricing agreements with the CCRA.

Foreign Affiliates
A nonresident corporation is considered a foreign affiliate if a Canadian corporation and related persons directly or indirectly own at least 10% of any class of shares of that nonresident corporation. Dividends received by a Canadian corporation from a foreign affiliate are generally received tax-free in Canada if the dividends are derived from active business profits earned in a country with which Canada has entered into a tax treaty. Dividends are taxable in Canada if they are derived from passive operations or any operations in a nontreaty country, with relief for foreign tax on such income.

Controlled Foreign Affiliates
A Canadian taxpayer that controls (as defined) a foreign affiliate is taxed on its share of that entity's passive investment income in the year such income is earned, regardless of whether such income is currently paid to the shareholder, except in certain specified circumstances.

Foreign Investment Entities
Draft legislation has been released concerning the taxation of foreign investment entities (FIEs). If enacted as drafted, the measures may significantly affect Canadian corporations that have noncontrolling interests in certain foreign entities. Under the proposed regime, a Canadian taxpayer generally will be required to report as income either an amount calculated with reference to the annual increase in the value of its interest in an FIE, or an amount based on the FIE's income calculated under Canadian rules. The measures are scheduled to be effective for tax years beginning after 2001.

C.6 Other Significant Taxes

The table below summarizes other significant taxes in Canada.

Nature of Tax	*Rate (%)*
Goods and Services Tax (GST), a value-added tax, applies to a broad range of goods and services	7
Harmonized Sales Tax, a value-added tax, applies to a broad range of goods and services in certain provinces	15
Provincial/territorial income taxes, on taxable income allocated to jurisdictions in which corporations have permanent establishments	9 to 17
Provincial/territorial capital taxes, with capital allocated in the same manner as income for the provincial/territorial income tax; these taxes do not apply to insurers, which instead pay premium taxes at various rates	Up to 0.64
Provincial payroll taxes, paid by employers (varies by province)	0 to 4.3
Part VI tax on financial institutions, effectively a minimum tax, which is reduced by income taxes paid; applies on a nonconsolidated basis to capital in excess of C$200 million	1.25
Large Corporations Tax, effectively a minimum tax, which may be reduced by the 4% corporate surtax; applied on capital employed in Canada in excess of C$10 million	0.225
Canada Pension Plan, on pensionable earnings between C$3,500 and C$39,100; paid by	
Employer	4.7
Employee	4.7
Self-employed individual	9.4
(The province of Quebec offers a similar plan for residents of Quebec.)	

Nature of Tax	*Rate (%)*
Employment insurance, on insurable earnings up to a maximum of C$39,000; paid by	
Employee	2.2
Employer (1.4 times the employee rate)	3.08

C.7 Miscellaneous Tax Matters

Corporate Reorganizations

In general, transactions between related corporations must be recognized at fair market value. However, certain common types of domestic and foreign corporate reorganizations may be accomplished with little or no immediate Canadian tax cost.

Change of Control

If control of a corporation has been acquired, the target corporation is deemed to have a year-end immediately before the change in control. A new tax year begins immediately thereafter, and the target corporation may select a new year-end. Special rules apply to the determination and treatment of capital losses and business losses when an acquisition of control occurs.

General Antiavoidance Rule

The CCRA may apply a general antiavoidance rule to eliminate any form of tax advantage resulting from a transaction or a series of transactions if a Canadian tax advantage is the primary reason for the transaction and if other criteria are met.

C.8 Financial Reporting and Auditing

Method of Accounting

The accrual method of accounting is required for financial accounting purposes in Canada.

Sources of Accounting Principles

Legislation

The Canadian Institute of Chartered Accountants (CICA) is responsible for the development of accounting and auditing standards in both the public and private sectors, as set forth in the *CICA Handbook* (see page 40), and is also responsible for accounting and auditing research. The CICA also actively works with international groups to achieve worldwide harmonization of accounting and auditing standards.

Canada has no federal securities laws, but the provincial securities commissions act in concert on many issues through the issuance of national policies. The federal Canada Business Corporations Act (CBCA), nearly all provincial equivalent

acts and all securities acts require that annual financial statements to shareholders generally be prepared in accordance with the standards set forth in the *CICA Handbook*.

CICA Handbook

The *CICA Handbook* is the primary source of accounting principles and practices in Canada. The CICA's Accounting Standards Board (AcSB) determines the issues and problems that should be resolved by the *CICA Handbook* pronouncements, known as recommendations, and approves the issuance of recommendations. The recommendations generally establish broad principles instead of specific details of application, which are left to the judgment of financial statement preparers and their accounting advisers. Abstracts issued by the CICA's Emerging Issues Committee provide guidance on new and emerging accounting issues.

The *CICA Handbook* recommendations apply to all types of for-profit enterprises and nonprofit organizations, unless a particular recommendation provides for a specific exemption. Enterprises established under special federal or provincial acts or statutes, including banks, insurance companies and public utilities, may also be subject to special statutory accounting requirements, which supplement the *CICA Handbook* provisions. The *CICA Handbook* recommendations do not override the requirements of any governing statute, but a failure to follow the *CICA Handbook* in such circumstances may require an auditor to issue a qualified opinion.

International Accounting Standards

The CICA has a formal liaison with the International Accounting Standards Board (IASB) through one of the seven IASB liaison board members who work with national accounting bodies to encourage cooperation among the IASB and national standard-setters. Liaison board members are responsible for coordinating agendas and ensuring that the IASB and national bodies are working toward the goal of a single set of high-quality worldwide standards.

Adherence to Canadian practice does not automatically ensure conformity with international standards and vice-versa.

Influence of U.S. Accounting Practice

Because of Canada's extensive economic ties with the United States, U.S. generally accepted accounting principles (GAAP) have a significant, if indirect, effect on Canadian accounting practice and on the process of establishing accounting standards.

Established Practice

If the *CICA Handbook*, other accounting literature and relevant legislation are silent on a particular subject, Canadian companies and accountants may look to established practice for guidance in determining appropriate accounting treatment.

Significant Accounting Concepts for Investors

Significant Canadian accounting principles and practices are summarized below.

Inventories

Inventories in Canada are carried at the lower of cost or market value, with certain exceptions, including inventories of precious metals. Market value is based on replacement cost, net realizable value or other value, depending on the circumstances. The most commonly used methods for determining cost are first-in, first-out (FIFO), average cost and specific identification. Reserves for a future decline in value are not permitted. Although the last-in, first-out (LIFO) method is permissible under Canadian GAAP, it is generally not used because it is not acceptable for Canadian income tax purposes.

Long-Term Securities Investments

Equity accounting is usually required for long-term securities investments if an investor is able to exercise significant influence over the investee. The ability to exercise significant influence may be evidenced by a number of factors. However, unless clearly demonstrated otherwise, this ability is presumed not to exist if the investor holds less than 20% of the voting interest in the investee. In Canada, investment income calculated under the equity method generally represents the amount necessary to increase or decrease the investor's income to the amount that would have resulted had the investee been consolidated.

Research and Development Costs

Research costs are charged to expense as they are incurred. Development costs are treated similarly, but must be deferred if certain criteria specified in the *CICA Handbook* are met. The handbook generally requires the deferral of development costs if the following conditions are satisfied:

- The technical feasibility of a product is established;
- The company intends and is financially able to produce the product;
- A market for the product exists; and
- The costs are expected to be recovered. Amortization begins when commercial production commences.

Income Taxes

Canadian standards require comprehensive accounting for all future tax assets and liabilities that arise from differences between the book and tax values of assets and liabilities. These standards are essentially the same as those found in U.S. Financial Accounting Standards Board (FASB) Statement No. 109. Private companies are permitted to continue using the deferral method of accounting for income taxes until January 2002 and under a current proposal, may be permitted to continue using this method. Under the deferral method, all timing differences between book and taxable income are accounted for.

Leases

The CICA recommendations and U.S. pronouncements on leases are essentially the same. Leases that transfer substantially all of the benefits and risks of ownership related to the leased property from the lessor to the lessee are accounted for as capital leases by the lessee and as sales-type or direct-financing leases by the lessor.

Business Combinations

The CICA recently issued a new standard that requires use of the purchase method to account for business combinations. Goodwill and indefinite life intangibles are no longer amortized, but are tested for impairment on a periodic basis. The new standards are consistent with those recently approved by the U.S. FASB.

Consolidations

Companies that have one or more subsidiaries must prepare consolidated financial statements, which are the primary financial statements submitted to shareholders. The *CICA Handbook* defines a subsidiary as a controlled enterprise in which the parent has the right and ability to obtain future economic benefits and is exposed to related risks of the controlled enterprise. Control is defined as the continuing power to determine the enterprise's strategic operating, investing and financing policies without the cooperation of others, instead of in terms of percentage ownership interest. However, percentage ownership interest is one of the primary factors considered in any assessment of the existence of control.

Foreign-Currency Translation

The *CICA Handbook* recognizes two types of foreign operations—integrated and self-sustaining.

Integrated foreign operations are "financially or operationally interdependent with the reporting enterprise such that the exposure to exchange-rate changes is similar to the exposure that would exist had the transactions and activities of the foreign operation been undertaken by the reporting enterprise and for these entities, the translation process should result in the same amount that would be obtained if the reporting enterprise had undertaken those economic activities itself." Integrated operations are accounted for using the temporal method. Under this method, assets, liabilities, revenues and expenses are translated using the Canadian dollar as the unit of measure. Monetary items are translated at the rate of exchange in effect at the balance sheet date. Nonmonetary items are translated at historical rates, unless carried at market. Revenues and expenses are translated at the rate of exchange in effect on the dates the transactions occur. Depreciation and amortization of assets are translated at the exchange rates of the assets to which they relate. Translation gains or losses are taken to income, except when a monetary item has a fixed or ascertainable life extending beyond the end of the following fiscal year, in which case the exchange gain or loss is deferred and amortized over the remaining life of the related monetary item.

Self-sustaining foreign operations are "financially and operationally independent of the reporting enterprise such that the exposure to exchange-rate changes is limited to the reporting enterprise's net investment in the foreign operations." For these entities, the current exchange rate is generally used to translate the financial statement items. Translation adjustments are defined as a separate component of shareholders' equity until the net investment in the foreign operation is reduced.

The CICA recommendations and U.S. FASB Statement No. 52 are primarily the same, except for the CICA requirement to defer and amortize exchange gains and losses on most long-term debt or receivables of the reporting enterprise over the remaining lives of the debt or receivables. The U.S. standard requires that these amounts be included in the determination of net income immediately. Canada is considering a proposal to eliminate the deferral and amortization method for unrealized translation gains and losses on noncurrent monetary assets and liabilities.

Related-Party Transactions

Canadian companies are required to disclose in the notes to their financial statements the nature and extent of all related-party transactions. Parties are considered to be related if one party has the ability to exercise, directly or indirectly, control or significant influence over the operating and financial decisions of the other. Parties are also considered to be related if they are subject to common control or significant influence.

Related-party transactions may be recorded at either book or fair market value, depending on the circumstances. The fair market value basis is used for transactions in the normal course of business. It may also be used for other transactions if they result in a change in ownership of 20% or more and if fair market value is determinable.

Government Assistance

Assistance received from the government for expenses or revenues is included in net income for that period. If the assistance relates to future periods, it is deferred and amortized over the relevant periods. Assistance to acquire fixed assets is either deducted from the cost of the fixed assets or recorded as a deferred credit and amortized on the same basis the fixed assets are depreciated.

Disclosure, Reporting and Filing Requirements

Disclosure Requirements

General Requirements. Financial statements in Canada normally include a balance sheet, an income statement, a statement of retained earnings and a cash flow statement. Most annual financial statements are presented on a comparative basis,

showing current-year and prior-year financial information, as recommended by the *CICA Handbook*. In rare circumstances, comparative information may not be meaningful and may be excluded.

Financial statements must include a clear and concise description of the significant accounting policies followed by the enterprise. Policies must be disclosed if the financial statements follow alternative acceptable principles or if the practices and the policies used are unique to a particular industry. This description of significant accounting policies is usually presented as the first note to the financial statements or as a separate summary.

The notes to financial statements generally include additional significant information on financial statement items, including the following:

- Details concerning inventories and fixed assets, the composition of long-term debt and income taxes;
- Disclosure of commitments, contingencies, related-party transactions and important subsequent events; and
- Other information considered necessary for a fair presentation of financial position, as well as the results of operations such as segmented information for public companies.

Many of the *CICA Handbook* disclosure requirements for financial statements are satisfied by information supplied in these notes, which form an integral part of the statements and, as a result, are covered by the auditor's report.

Requirements for Listed Companies. Companies issuing securities to the public must provide additional disclosures that are intended to enhance an investor's understanding of a company's operations and prospects for the future. These disclosures are similar to those required by the U.S. Securities and Exchange Commission (SEC).

Canadian corporate and securities laws prescribe the financial statements that must be included in prospectuses. These statements must be prepared on a comparative basis. The periods covered by these financial statements vary according to whether the enterprise is eligible to use a short-form prospectus. If the most recent audited financial statements are as of a date more than 90 days before the date of the preliminary prospectus, unaudited interim financial statements are required.

The Canadian securities commissions and the U.S. SEC have adopted regulations for a multijurisdictional disclosure system (MJDS) to facilitate cross-border offerings of securities. The MJDS allows eligible Canadian companies to offer securities and meet ongoing reporting requirements in the United States using disclosure documents prepared in accordance with Canadian requirements.

Reporting Requirements

Annual Financial Statements
Private companies are required to present financial statements to their shareholders at an annual meeting, but the information contained in these statements generally does not receive wide public distribution.

Public companies have broader reporting responsibilities under both the CBCA and the applicable provincial securities acts. These acts require public companies to mail audited financial statements to all shareholders annually and to file such statements with the applicable securities commission.

Interim Reporting
Within 60 days of the end of each quarter except the fourth, public companies are generally required by provincial securities laws to issue unaudited quarterly reports to their shareholders. These reports must be comparative and include summary statements of income and changes in financial position. An interim balance sheet is not required but is often provided.

Filing Requirements

Certain enterprises, including public companies and foreign companies with a branch in Canada, must file their financial statements with the applicable provincial securities commissions. In addition, public companies are also required to file notices of material changes with the appropriate securities commission whenever a significant event affecting the company occurs. If various criteria are met, rules contained in legislation and other sources require corporations to file returns disclosing the following: changes in capital; information on directors, officers and nonresident shareholders; details of foreign ownership; details of loans and payments to nonresidents; and certain other statistical information. Canadian subsidiaries, however, are generally not required to disclose financial information pertaining to their nonresident parents.

Books and Records

Federal and provincial corporations are required to maintain certain corporate records. The incorporating statute of a company that maintains its records outside Canada may specify certain minimum information that must be retained at a Canadian location and obtain approval from applicable tax authorities. This approval is normally granted if the company agrees either to forward the records to its Canadian office for examination by Canadian tax auditors or to pay the traveling expenses of auditors to inspect the records in the foreign jurisdiction.

Audit Requirements

Canada Business Corporations Act (CBCA)
Public companies incorporated under the CBCA (see Section C.1, page 27) must file annual audited financial statements with the Director of Industry Canada.

A subsidiary corporation need not file annual audited financial statements nor appoint an auditor if it meets both of the following criteria:

- The subsidiary corporation's accounts are included in the consolidated or combined financial statements of its parent company; and
- The consolidated or combined financial statements, including the subsidiary's accounts, are filed with the Director of Industry Canada because the parent company is incorporated under the CBCA.

Nonpublic companies are not required to file financial statements and may forego an audit if they obtain the annual written consent of all shareholders, including shareholders not otherwise entitled to vote.

Banks, loan companies and other companies incorporated under special-purpose federal legislation generally are required to have an annual statutory audit, as well as companies in certain other regulated industries.

Provincial Laws

Quebec statutes require joint stock companies incorporated by "letters patent" (a legal term referring to the documents evidencing the formation of a company) to appoint an auditor. In contrast, no statutory audit requirements are imposed for companies incorporated under the statutes of New Brunswick or Prince Edward Island. In general, exemptions from statutory audit requirements for a company incorporated by filing its articles in Quebec or under the statutes of the remaining provinces—Alberta, British Columbia, Manitoba, Newfoundland, Nova Scotia, Ontario and Saskatchewan—may be available if either of the following conditions is met:

- The company is not offering its securities to the public, and its shares are not traded on a stock exchange in Canada; or
- The company meets certain size requirements.

If the appropriate conditions are met, the shareholders usually must consent unanimously each year not to appoint an auditor. Companies must apply annually for an exemption from statutory audit requirements.

Partnerships and sole proprietorships are not required to have statutory audits.

Audit Report

Independent auditors express an opinion on the financial statements in the audit report. Canadian auditors use standard forms of reports similar to those used in the United States.

Auditors' Responsibilities

Professional Responsibilities. A Canadian chartered accountant's professional responsibilities are set forth in the rules of professional conduct, which are enforced by the provincial Institute of Chartered Accountants of which the accountant is a member. These rules are generally uniform in each of the 10 provinces and require accountants to do the following:

- Perform professional services with integrity and care;
- Be independent both in fact and in appearance;
- Not be associated with false or misleading financial information; and
- Not use confidential information improperly.

The rules also cover the scope of permitted practice of public accountants, advertising, relationships with other chartered accountants and similar matters. They also require chartered accountants to comply with the *CICA Handbook*. The Canadian rules are a combination of general statements of ideal conduct and specific rules proscribing unacceptable conduct.

Legal Responsibilities

Each provincial and federal corporation act in Canada contains specific provisions pertaining to an auditor's rights and responsibilities. When auditing a corporation, the auditor refers to the appropriate general business corporation act regulating that company's operations or, for certain specialized industries, to the relevant special legislation (such as the Bank Act or the Loan and Trust Companies Act). If doubt exists concerning the proper interpretation of statutory responsibilities, the auditor may seek legal advice.

An auditor's rights and duties under the CBCA include the following:

- The auditor of a company may attend and be heard at meetings of the company's shareholders and is required to answer a shareholder's or director's questions relating to the auditor's duties.
- The auditor of a company may attend and be heard at meetings of the company's audit committee and, if requested by a member of the audit committee, is required to attend every meeting of the committee during the auditor's term of office.
- An auditor who resigns or is being replaced may submit a written statement of the reasons for resigning or for opposing the company's proposed action. The company must send the letter to all of its shareholders.
- The auditor must be independent. Certain business relationships and holdings of securities that would result in the auditor's disqualification are described in the act.
- The auditor must make an examination that will enable the auditor to issue a report on the financial statements in the form prescribed in the *CICA Handbook*.
- The auditor has the right of access to the books and records of the company and its subsidiaries and to additional information and explanations that may be required.

The corporation acts in most of the 10 provinces contain similar, but not identical, provisions.

D. Individuals

At the time of this writing, Canadian immigration laws are being reviewed and revised. New legislation currently before Parliament may have a significant impact on the information in Sections D.6 through D.8. Readers are advised to obtain updated information before making decisions.

D.1 Income Tax

Who Is Liable

The major determinant of Canadian income tax liability is an individual's residence status. An individual resident in Canada is taxable on worldwide income. Nonresidents are taxed on Canadian-source income only.

Canadian tax statutes do not contain a specific definition of "residence." Accordingly, an individual's residence is determined by factors including the location of dwelling places, spouse, dependents and personal property; economic interests; and social ties. However, a nonresident individual who stays temporarily in Canada for 183 days or longer in a calendar year is deemed to be a resident of Canada for the entire year. This provision applies only to an individual who would otherwise be considered a nonresident, and not to an individual who purposely takes up residence in Canada or to an existing resident who ceases to be a resident after moving away from Canada. These latter individuals may be treated as part-year residents.

In certain situations, an individual may move from Canada to another country and retain sufficient ties to continue to be considered a Canadian resident for domestic tax purposes. At the same time, this individual may be considered a nonresident of Canada for tax treaty purposes. Individuals who become treaty nonresidents of Canada after 24 February 1998 are deemed to be nonresident in Canada for domestic tax purposes as well.

In the year an individual becomes a Canadian resident, he or she is considered a part-year resident, and is subject to tax in Canada on worldwide income for the portion of the year he or she is resident in Canada. A part-year resident is also subject to Canadian tax on any Canadian-source income received during the nonresidency period of that year.

Income Subject to Tax

Employment Income

Income from employment includes salaries, wages, directors' fees and most employment benefits. Some examples of taxable benefits are low-interest loans, the use of company-owned automobiles, subsidized or free personal living expenses and stock-option benefits (see *Taxation of Employer-Provided Stock*

Options, page 52). Among the few nontaxable benefits are employers' contributions to certain employer-sponsored retirement savings plans, including registered Canadian pension plans and deferred profit-sharing plans.

Self-Employment Income
The computation of an individual's income from a business or property is similar to that for a corporation. Business income is generally computed using the accrual method of accounting. Income derived from a partnership is allocated among the partners in accordance with either the partnership agreement or, in the absence of such an agreement, the governing partnership law. Deductions and credits also flow through to the individual partners. Special rules limit the amount of business or property losses that may be claimed by a limited partner of a limited partnership.

Directors' Fees
Directors' fees derived from Canada or a foreign country are taxable to a Canadian resident as employment income. Tax treaties signed by Canada generally do not allow a resident of Canada to exempt, or otherwise treat favorably, directors' fees received from a foreign (nonresident) company.

For a nonresident, directors' fees are considered to be earned where the director's services are rendered. Therefore, fees for services rendered at a specific board meeting in Canada are taxable in Canada. If a fee is related to services rendered both in and outside Canada, it may be possible to prorate the fee in proportion to the number of days that the director spent in Canada during the year. However, no specific guidelines for such allocations are provided.

Under certain tax treaties, directors' fees are considered similar to compensation from regular employment. If the conditions exempting a nonresident from Canadian taxes on compensation from regular employment are met, the directors' fees are exempt.

Investment Income
An individual may report interest income using the cash basis (when received), the receivable basis (when due) or the accrual basis (as earned during the year). The particular method selected must be applied to an investment consistently. For most investments acquired after 1989, accrued interest must be included in income annually. The bonus or premium paid on maturity of certain investments, such as treasury bills, strip bonds or other discounted obligations, must be reported as interest income.

Dividends received by individuals from taxable Canadian corporations are given special treatment to recognize corporate taxes already paid on the accumulated income used as the source for the dividend distribution. For these dividends,

125% of the actual amount received is included in income, and a credit against tax (federal and provincial tax combined) is allowed in an amount approximately equal to 25% of the cash amount of the dividend. For many Canadian-controlled private corporations and their shareholders, the result of this gross-up and dividend tax credit procedure is that the combined corporate tax on the original income and the net personal tax on the dividend is approximately equal to the tax that would have been paid on the original income had it been received directly by the individual instead of passed through the corporation.

Royalties and rental income are taxed as ordinary income. To compute a loss from the rental of real estate or leasing of other property, allowable depreciation generally is limited to the net income determined before deducting depreciation. Therefore, the depreciation claimed by an individual may not create or increase a rental loss.

Passive Income Derived by Nonresidents
Nonresidents with sources of income from Canada other than employment or business income generally are subject to a withholding tax at a rate of 25% imposed on gross income received. Examples of income subject to withholding tax are rental income, royalties, interest, dividends, trust income, pensions and alimony. The payer must withhold and remit the appropriate amount of tax and file the required returns. For the recipient, withholding taxes generally are final taxes, and tax returns are not required for income subject to withholding.

Interest payments on most government and certain corporate bonds are exempt from withholding taxes. Specifically, no tax is withheld on interest paid by a corporation resident in Canada to an arm's length nonresident if all of the following conditions are met:
- The indebtedness was issued after 23 June 1975;
- The Canadian corporation is not obliged to pay more than 25% of the principal amount of the indebtedness within five years from the date of issue; and
- The interest owed on the bond is not related to the Canadian corporation's revenue, cash flow or profits.

The exemption applies even if the debt is convertible into shares, provided that the shares may not be redeemed or canceled within five years after the issue of the debt. Interest paid to nonresidents on foreign-currency deposits at financial institutions is also exempt from withholding tax.

Canada's double tax treaties generally reduce withholding taxes to 15% or less on most types of passive income paid to nonresidents.

Taxation of Employer-Provided Stock Options

General Rules

Individuals are not taxed when the employer grants the stock options. In general, tax consequences arise when the employee exercises the options. Canadian tax rules require that a taxpayer include a stock option benefit in taxable income in accordance with the following table (special rules apply specifically to Canadian-controlled private corporations).

Residence Status of Recipient at Date of Grant	*Residence Status of Recipient at Date of Exercise*	*Option Benefit Taxable in Canada*
Resident of Canada	Resident of Canada	Yes (a)
Resident of Canada	Nonresident	Yes (b)
Nonresident	Resident of Canada	Yes (c)
Nonresident	Nonresident	No

(a) One hundred percent of the benefit is taxable in Canada in the year of exercise and is generally considered to be 100% Canadian-source. However, see *Tax Deferral Election*, below.

(b) One hundred percent of the benefit is taxable in Canada in the year of exercise and is generally considered to be 100% Canadian-source. Stock options are not subject to the deemed disposition rule if an individual ceases to be a Canadian resident. However, see *Tax Deferral Election*, below.

(c) One hundred percent of the benefit is taxable in Canada for a Canadian resident in the year of exercise. The benefit is considered to be 100% foreign-source and is therefore eligible for a foreign tax credit.

The amount of the taxable benefit is equal to the difference between the value of the shares at the time the shares are acquired and the sum of the exercise price paid for the shares plus the amount paid, if any, for the stock option. The shares have a cost basis equal to the fair market value of the shares at the time they are acquired.

The employee may be entitled to a deduction equal to one-half of the taxable benefit if the option price is at least equal to the fair market value of the shares on the date of grant and if certain other conditions are met. The effect of this deduction is to tax the benefit as a capital gain.

Tax Deferral Election

Employees of companies whose shares trade on prescribed stock exchanges may elect to defer taxation of the taxable benefits arising on the exercise of a qualifying stock option (subject to an annual limit), until the date of disposition of the

share, or until deemed disposition resulting from the taxpayer's death or emigration from Canada. The inclusion rate for qualifying stock option benefits is 50% (that is, the stock option deduction is 50% of the taxable benefit).

If the employee is a resident of Canada at the time the shares are sold, any gain is subject to the regular capital gains rules. If the employee ceases to be a Canadian resident prior to the sale of the shares, then he or she is subject to the deemed disposition rules at departure (see *Capital Gains and Losses*, below).

Capital Gains and Losses

Fifty percent of the year's capital gains is included in taxable income, to the extent that the amount exceeds 50% of capital losses for the year. This includes capital gains on real estate and personal property, regardless of whether used in a trade or business, and on shares held for personal investment. Special rules apply to determine the nature of the gain or loss on the sale of depreciable property.

Capital gains derived from the sale of a principal residence are generally exempt from tax. Capital losses incurred on the sale of a principal residence may not be used to reduce income for the year.

Gains derived from the sale of qualifying farm property and from shares of small business corporations (see below) qualify for a lifetime C$500,000 exemption. However, the amount of this exemption is reduced by any amounts claimed in prior years under the C$100,000 lifetime capital gain exemption that was eliminated in 1994.

Qualifying Farm Property

Farmers are eligible for a lifetime C$500,000 exemption on the sale of qualified farm property, which includes farmland, shares of a family farm corporation or interest in a family farm partnership. The available exemption is reduced by the amount of any exemption claimed on the disposition of any other capital property during the tax year or in preceding years.

Shares of a Small Business Corporation

Capital gains realized on the disposition of shares of a small business corporation qualify for a lifetime C$500,000 capital gains exemption, provided that certain criteria are met. This exemption amount is reduced by any portion of gain eligible for the exemptions described in the preceding paragraphs.

The use of this exemption may be restricted in a particular year because of cumulative net investment loss (CNIL) rules. An individual's CNIL is the excess of his or her post-1987 investment expenses over investment income for those years. To the extent an individual has a CNIL balance, the capital gains for the year that are eligible for the exemption are reduced.

An individual using the various capital gains exemptions may nevertheless be subject to minimum tax.

For capital gains of up to C$500,000 realized after 27 February 2000, individuals are allowed a tax-free rollover on the disposition of an eligible small business investment if the proceeds of the disposition are used for other small business investments.

Capital Losses

Except for allowable business investment losses, capital losses not utilized in the year realized are deductible only against net capital gains realized in another year. Unused capital losses may be carried back to any of the three preceding years or carried forward indefinitely.

Allowable business investment losses (ABILs), a special type of capital loss, are deductible against any other source of income in the year incurred. Any unused ABIL realized in a particular year is converted into a business loss and is subject to the business loss carryover rules described in *Relief for Losses*, page 59. If an unused portion of the ABIL remains at the end of the seven years following the year when it was realized, the loss converts back into a capital loss and may be carried forward indefinitely.

Ceasing Canadian Residency

An individual who ceases Canadian residency after 1 October 1996 is generally deemed to have disposed of all assets, including taxable Canadian property other than real property situated in Canada, capital property or inventory used in carrying on a business in Canada, certain pension rights and unexercised employee stock options, at the fair market value on the date residency is terminated. Previously, a broader category of property was excluded from this deemed disposition rule.

The following special tax rules and exceptions apply to individuals entering or leaving Canada with respect to the calculation of capital gains or losses and the general deemed disposition rule:

- The departure tax provision is modified for an individual who was not resident in Canada for more than 60 months during the 10-year period preceding departure. Property owned by such an individual when he or she became resident, or property inherited since that time, is not subject to the deemed disposition rule.
- Nonresidents who return to Canada after emigrating may elect to reverse the tax effects of the deemed dispositions, regardless of how long they were nonresidents.
- Emigrating taxpayers who are subject to the deemed disposition rules may post security for the departure tax. An individual is not required to provide security for an amount at least equal to the taxes payable on the first C$50,000 of taxable capital gains resulting from the deemed dispositions.

Deductions

Deductible Expenses
Few deductions are allowed in computing income from employment. Among the deductible items are employee contributions to a registered pension plan (up to a certain maximum amount), travel and certain other expenses of commission salesmen, certain travel expenses of other employees, and union or professional dues.

Employers must generally withhold income tax, government pension contributions and unemployment insurance premiums from remuneration paid to employees, and must remit those amounts to the tax authorities for credit to the employees' accounts.

Interest may be claimed as a deduction in the year it is paid or when it becomes payable, depending on the taxpayer's normal practice, as long as the money is borrowed for the purpose of earning income. Other costs, including investment counseling fees and accounting costs (but not tax return preparation fees) are deductible. Personal interest, including interest on mortgages or charge accounts, is not deductible.

Other deductions include contributions to registered retirement savings plans (an individual retirement income plan) and payments for alimony, expenses for certain moves within Canada, and certain child-care expenses.

Federal Personal Credits and Allowances
A resident individual is allowed to deduct several federal personal tax credits in computing the amount of basic federal tax for the year. Personal tax credits include a basic personal credit of C$1,221 for 2002, a spousal credit subject to thresholds for spousal income, a disabled dependent's credit, an age credit, a disability credit, and education and tuition fee credits. An employee's Canada/Quebec pension plan contributions and employment insurance contributions are also eligible for tax credit treatment.

Charitable donations (up to 75% of net income) are eligible for a tax credit of 16% on the first C$200 and a tax credit of 29% for donations in excess of C$200. The unused portion of the donation credit may be carried forward for up to five years. Similarly, medical expenses in excess of the lesser of C$1,728 or 3% of net income are eligible for a tax credit equal to 16% of the excess. An individual is eligible for a tax credit of up to C$160 on the first C$1,000 of qualifying pension income.

Business Deductions
Interest and other charges incurred to acquire business assets or investment property generally may be deducted. Limitations apply to the deduction of automobile and home office expenses. Deductions for business meals and entertainment expenses are limited to 50% of actual expenses.

Rates

Federal and Provincial Tax Authorities
The federal government, as well as the provinces and territories, impose income taxes on resident individuals. However, only the province of Quebec collects its own individual income tax and requires individuals to file a separate return. The federal government collects the tax on behalf of all other provinces and territories, which means that only one combined return must be filed.

The amount of an individual's tax payable is calculated in a two-step process. An individual's federal income tax for a given year is calculated on taxable income using a single graduated rate schedule. From this amount, allowable federal personal tax credits (see *Federal Personal Credits and Allowances*, page 55) and the dividend tax credit are deducted. The net result is the individual's basic federal tax payable.

Income tax is generally paid to one of the provinces or territories based on the individual's residency on the last day of the year. Except with respect to Quebec, which has always administered its own separate tax systems, provincial tax was typically calculated by applying the appropriate provincial rate to the basic federal tax payable for the year. However, all of the provinces and territories have recently implemented new personal tax systems based on taxable income rather than on federal tax. Under the new system, a separate calculation of taxable income similar to the calculation of federal taxable income is required. However, the treatment of certain items may differ.

Federal Tax Rates
For 2002, Canada has the following four tax brackets for federal income tax purposes. These brackets are indexed for inflation annually.

Taxable Income		*Tax on Lower*	*Rate on*
Exceeding C$	*Not Exceeding C$*	*Amount C$*	*Excess %*
0	31,677	0	16
31,677	63,354	5,068	22
63,354	103,000	12,037	26
103,000	—	22,345	29

Top Marginal Combined Rates
The following table summarizes the top marginal combined federal and provincial/territorial tax rates in 2002 for an individual residing in certain provinces and territories.

	Top Marginal Combined Rate (a)		
	Ordinary Income %	*Dividends (b)* %	*Capital Gain (c)* %
Alberta	39.00	24.08	19.50
British Columbia	43.70	31.58	21.85
Manitoba	46.40	35.08	23.20
New Brunswick	46.84	32.38	23.42
Newfoundland	48.64	31.87	24.32
Nova Scotia	47.34	31.91	23.67
Northwest Territories	42.05	28.40	21.03
Nunavut	42.05	28.40	21.03
Ontario	46.41	31.33	23.20
Prince Edward Island	47.37	31.96	23.69
Quebec	48.22	32.81	24.11
Saskatchewan	44.50	28.96	22.25
Yukon	43.01	29.04	21.51
Nonresident	42.92	—	—

(a) The rates shown are the maximum combined federal and provincial/territorial marginal tax rates, including surtaxes.
(b) The rates apply to the actual amount of taxable dividends received by individuals from taxable Canadian corporations.
(c) Only 50% of capital gains is included in taxable income (see *Capital Gains and Losses*, page 53). Consequently, total capital gains are effectively taxed at 50% of the ordinary tax rates.

Top Marginal Provincial and Territorial Rates

The following table summarizes the top marginal provincial and territorial tax rates in 2002 for an individual residing in certain provinces and territories.

	Top Marginal Provincial/ Territorial Rate (a)(b) Ordinary Income %
Alberta	10.00
British Columbia	14.70
Manitoba	17.40
New Brunswick	17.84
Newfoundland	19.64 (d)
Nova Scotia	18.34 (d)
Northwest Territories	13.05
Nunavut	13.05
Ontario	17.41 (d)
Prince Edward Island	18.37 (d)
Quebec	24.00 (c)
Saskatchewan	15.50
Yukon	14.01 (d)
Nonresident	13.92 (e)

(a) The rates shown are the maximum provincial/territorial marginal tax rates, including surtaxes.
(b) All provinces have implemented the tax-on-income system. Provincial and territorial tax calculations are based on a single graduated rate schedule applied to provincial/territorial taxable income.
(c) Residents of Quebec receive a federal tax abatement of 16.5% of basic federal tax.
(d) These jurisdictions levy an additional surtax on high-income earners, ranging from 5% to 56% of provincial/territorial taxes payable in excess of certain threshold amounts.
(e) Surtax at a rate of 48% of basic federal tax applies to an individual's income that is not earned in a province or territory, which is intended to approximate provincial/territorial tax rates.

For a sample individual income tax calculation, see Appendix 8, page 87.

Minimum Income Tax
To ensure that high-income taxpayers pay a certain level of tax, an alternative minimum tax applies. Under its provisions, individuals are required to recalculate taxable income, without deducting certain items that are otherwise deductible in the regular tax calculation. In recalculating taxable income, a blanket $40,000 exemption is permitted. Individuals pay the greater of the regular tax or the minimum tax. If the minimum tax exceeds the regular tax, the excess amount may be carried forward for seven years. The carryforward amount may be used to reduce regular tax to the extent that regular tax exceeds minimum tax.

Relief for Losses
In general, business losses not utilized in the year incurred may be deducted from taxable income earned in the three years preceding the year of loss or in the seven years following the year of loss.

D.2 Estate and Gift Taxes
Canadian succession law does not include estate or gift tax. However, provincial probate fees may apply at rates that vary, depending on the province.

In the year of death, the income of a deceased taxpayer includes income on an accrual basis from all sources up to the date of death, including accrued capital gains and losses. Various provisions alleviate hardship caused by the taxation of income and capital gains on an accrual basis at death. Among these provisions are the options to file a separate tax return for certain types of income and to tax the beneficiaries on certain transferred amounts. Special tax-free rollover provisions are available for property transferred to the Canadian-resident spouse of the deceased or to a qualifying trust for the benefit of the spouse, and for transfers of farm property to a child of the deceased.

D.3 Social Security

Contributions
Individuals employed in Canada and their employers must each make government pension plan contributions at a rate of 4.7% on salaries. They must also pay employment insurance premiums.

In 2002, an employee's required employment insurance premiums are calculated at a rate of 2.2% on the maximum amount of insurable annual earnings (C$39,000). This results in a maximum annual premium of C$858.00. Employers must make contributions equal to 1.4 times the amount of the employee's premiums, up to a maximum of C$1,201.20.

In 2002, the maximum amount of earnings subject to pension plan contributions is C$39,100 with a basic exemption of C$3,500. This results in a maximum annual contribution for employers and employees of C$1,673.20. Self-employed individuals must pay both portions for a maximum annual contribution of C$3,346.40.

Individuals are subject to social security contributions for the government pension plan (but not for employment insurance) on directors' fees in the same manner as for other employment income. It may be relevant whether the fees are subject to social security contributions in the other country.

Coverage
The following are the maximum monthly Canada/Quebec pension plan benefits for 2002.

Benefit	*Amount (C$)*
Retirement	788.75
Disability	956.05

The maximum amounts are paid to a person at 65 years of age. The pension amount is reduced if a person retires before reaching 65 years of age.

Canadian resident individuals or employers may have to contribute to health care plans operated by the provinces. Most hospital bills and physicians' fees, including those for drugs and dental care in certain provinces, are covered by these plans.

Totalization Agreements
To provide relief from double social security taxes and to assure benefit coverage, Canada has concluded totalization agreements with the following countries as of January 2001. The agreements usually apply for a maximum of two to five years.

Antigua and Barbuda
Australia (b)
Austria
Barbados
Belgium
Chile
Croatia
Cyprus
Denmark
Dominica
Finland
France
Germany (b)
Greece
Grenada
Guernsey
Iceland
Ireland
Italy (a)
Jamaica
Jersey
Korea
Luxembourg
Malta
Mexico
Netherlands (b)
New Zealand
Norway
Philippines (a)
Portugal
Slovenia
St. Kitts and Nevis
St. Lucia
St. Vincent and the Grenadines
Spain
Sweden
Switzerland
Trinidad and Tobago
United Kingdom
United States

(a) Agreements with the following countries are signed but are not yet in force: Israel (interim agreement); Italy (revised agreement only); Morocco; Philippines (supplement agreement only); Turkey; and Uruguay.

(b) Agreements with the following countries are under negotiation: Argentina; Australia (revised agreement only); Czech Republic; Germany (supplementary agreement only); Hungary; the Netherlands (revised agreement only); Poland; and the Slovak Republic.

D.4 Tax Filing and Payment Procedures

Individuals must file tax returns if they owe tax or if they are specifically requested to do so by the tax authorities. Married persons are taxed separately, instead of jointly, on all types of income. Therefore, spouses must file separate tax returns. In addition, because of the capital gains exemption rules (see Section D.1, page 53), all individuals with capital gains or losses must file income tax returns, regardless of whether tax is owed for the year.

Nonresident individuals generally must file Canadian income tax returns if they earn employment or business income (including "resource" income, which is generally income from oil, gas and mineral rights) in Canada or if they have capital gains from dispositions of "taxable Canadian property" (TCP), which includes the following property:

- Real estate in Canada;
- Property used in carrying on a business in Canada;
- Shares of a company other than a public corporation resident in Canada;
- Shares of a public company resident in Canada if the nonresident alone or with related persons held at least 25% of the shares of any class within the preceding five years;
- A capital interest in a trust resident in Canada;
- An interest in a partnership having at least 50% of its value represented by the bulleted items listed above, by resource property or by both; and
- The shares of a nonresident corporation and an interest in a nonresident trust if, during any time in the five-year period prior to disposal, at least 50% of the value was generated by the items listed above, including resource property.

Canada's double tax treaties may modify or exempt nonresidents from these tax provisions.

The tax year for individuals in Canada is the calendar year. Annual income tax returns must generally be filed on or before 30 April of the year following the tax year. The filing due date is extended to 15 June for individuals earning self-employment or business income. This extended due date also applies to these individuals' spouses. No other extension of time to file income tax returns is available in Canada.

Any unpaid income taxes are due on or before 30 April of the following year, regardless of the due date of the individual's return. Penalties are levied if any tax due is not paid on time, and interest is charged on unpaid taxes.

Individuals may be required to make quarterly installment payments if the difference between the tax payable and the amount withheld at source is greater than C$2,000 (for Quebec residents, C$1,200 of federal tax payable after federal withholding) in both the current year and either of the two preceding years. The amount of the quarterly installments is based on the lesser of the liability calculated by the tax authorities on installment notices, the liability for the preceding year or the liability projected for the current year after deduction of withholdings.

D.5 Double Tax Relief and Tax Treaties

Foreign Tax Relief

Foreign taxes paid are generally allowed as credits. If an individual receives foreign-source income that has been subject to foreign tax, foreign tax credit relief may be provided in Canada to reduce the effects of double taxation. The foreign tax credit is computed on a country-by-country basis and may be taken only to the extent of Canadian tax payable on the net foreign income from the treaty country. Separate foreign tax credits are computed for business income and nonbusiness income. The nonbusiness foreign tax credit allowed on income derived from property, other than real property, is further limited to 15% of gross foreign income from property.

To the extent that foreign taxes paid on foreign nonbusiness income are not credited against Canadian federal tax, the individual may deduct the excess amount in computing income derived from property. The individual also has the option of deducting from property income any foreign nonbusiness income taxes paid, instead of applying the amount for foreign tax credit purposes.

Unused foreign business tax credits may be carried back three years and forward seven years. Unused foreign nonbusiness tax credits are not eligible for carryover.

Provincial foreign tax credit relief is also provided. The provincial tax credit is generally limited to the lesser of the provincial taxes payable on the income and any foreign tax paid exceeding the amount of tax allowed as a credit and deduction for federal income tax purposes.

Double Tax Treaties

Canada has negotiated double tax treaties with most major industrialized nations and many developing nations. All treaties negotiated after 1971 generally follow the provisions of the model treaty developed by the Organization for Economic Cooperation and Development (OECD). Many treaties currently in force were negotiated prior to 1972 and may vary significantly from the OECD model treaty.

For a list of Canada's tax treaties with other countries, see Appendix 7, page 80.

D.6 Temporary Visas

Entry Visas
An individual who is not a citizen or permanent resident of Canada and who wishes to enter the country as a tourist, business visitor or foreign worker must obtain an entry visa. However, nationals of certain countries are exempt from this requirement, including nationals of the United States and most European nations.

Tourists
An individual wishing to enter Canada as a tourist must generally first secure an entry visa. However, nationals from certain designated countries are not required to obtain entry visas. In these circumstances, the individual may simply present himself or herself at a Canadian port of entry for admission into Canada. Visitors are generally admitted to Canada for up to six months after the original date of entry. Extensions may be made within Canada and are generally not difficult to secure.

Business Visitors
Under certain conditions, a foreign national may enter Canada for a business-related purpose without obtaining employment authorization, including the following:

- A representative of a business conducting activities outside Canada who seeks to purchase Canadian goods or services for that business;
- A sales representative of a business conducting activities outside Canada who comes to Canada for less than 90 days to sell goods for the business and who does not sell to the general public; and
- A permanent employee of a corporation, union or other organization conducting business outside Canada who is coming to Canada for less than 90 days to consult with other employees or members of that entity, or who is inspecting a Canadian branch office or headquarters on the organization's behalf.

In all cases, a business visitor is strictly limited regarding what he or she may do in Canada and, in almost all cases, is restricted to activities involving consultation or supervision with Canadian colleagues or clients. Business visitors may not engage in hands-on work, directly interact with the general public, or receive remuneration from Canadian sources.

NAFTA Business Visitors
Citizens of the United States and Mexico may take advantage of the expanded definition of "business visitor" under the North American Free Trade Agreement (NAFTA, see *North American Free Trade Agreement*, page 64). Annex 16 of NAFTA enhances the business visitor definition by including employment functions that conform to seven prescribed phases of the business cycle: research and design; growth, manufacture and production; marketing; sales; distribution; after-sales service; and general service. U.S. or Mexican citizens engaged

in full-time employment in their home countries who do not receive direct remuneration in Canada may enter Canada to perform a service consistent with this business cycle without obtaining an employment authorization (see Section D.7, below).

However, certain important restrictions exist. For example, U.S. sales representatives may enter Canada to meet with clients and to negotiate sales contracts only for products manufactured or services originating in the United States (not for a Canadian branch plant or an affiliate). Further, the sales agent must not be engaged in delivering the goods or providing the services, but is restricted to closing sales and ensuring that the contracted goods or services are forwarded directly from the United States to the Canadian client.

D.7 Work Visas

Aside from certain circumstances pertaining to international trade agreements, the right to work in Canada is relatively restricted. A federal department, Human Resources Development Canada (HRDC), is responsible for ensuring that all employment opportunities arising in Canada are made available to Canadian citizens and permanent residents before being offered to foreign workers. However, employment authorizations, or work permits, may be issued to foreign nationals in situations recognized as beneficial to Canadian economic interests or if steps are taken to ensure that Canadian labor market interests are not compromised. Understanding this process and preparing documentation in support of the work permit application are the key factors in successfully securing the appropriate approval of Canadian officials. Authorization may be granted if the Canadian employer seeking to hire a foreign worker justifies the hiring by documenting its efforts to first recruit Canadians for the position, or if the government exempts the employer from the Canadian recruitment requirement due to the substantial benefits derived from the hire.

Exempt Categories

Canadian immigration policy, administered by Citizenship and Immigration Canada (a department separate from HRDC), realizes that it is in Canada's best interest in specific situations to waive the HRDC validation requirement. These waivers are known as exempt categories. The following are the most common exempt categories.

North American Free Trade Agreement

NAFTA broadens business opportunities for citizens of Canada, the United States and Mexico. For U.S. and Mexican citizens seeking employment opportunities in Canada, NAFTA (which replaced the bilateral U.S.-Canada Free Trade Agreement, see Section B.3, page 24) significantly expands the procedures for professionals, intracompany transfers and business visitors.

For example, Canada has effectively adopted the guidelines established under the U.S. immigration law for the L-1 visa category, resulting in a broader scope of duties included in the intracompany transfer provisions. U.S. or Mexican managers or employees who possess specialized knowledge of the company and have been employed by the company for at least one of the past three years, are eligible for employment authorization under this visa category.

A special opportunity for U.S. and Mexican citizens to secure a Canadian employment authorization is available under NAFTA. Appendix 1603. D.1 of Chapter 16 provides a schedule of professions that permits applicants with certain education and skill levels to accept job offers from Canadian employers. For certain professions, licensing in Canada may also be required. Professions listed in the schedule include accountants, architects, economists, engineers, hotel managers, lawyers, librarians, management consultants and scientists.

Applications under NAFTA may be considered at a Canadian port of entry, although Canadian visa officials at posts abroad must first review certain clearance procedures for Mexican citizens.

As a processing procedure, Canada issues one-year employment authorizations for applications made at the border for professionals, but three-year terms are available for intracompany transferees. Extensions may be secured within Canada for a maximum total period of up to seven years, depending on the applicant's category.

General Agreement on Trade in Services

The General Agreement on Trade in Services (GATS) is a multilateral trade agreement that broadens opportunities for certain companies engaged in providing services (instead of producing goods). The agreement includes provisions similar to those under NAFTA regarding the employment of certain professionals and the intracompany transfer of senior managers and specialized employees. To qualify, the countries of citizenship of both the transferee and the company must be parties to GATS.

Students

Certain exemptions for students provide an opportunity to gain Canadian work experience. The following situations are covered under this category:

- A full-time student at a post-secondary institution seeks to engage in on-campus employment.
- The spouse of a foreign student wishes to work in Canada while the student is attending a full-time course of post-secondary education.
- A post-graduate employment authorization is issued to a foreign student who has graduated from a post-secondary educational program in Canada, allowing the student to be hired for no more than one year by a Canadian employer in an area directly related to his or her field of education.

- A reciprocal arrangement with the student's home country exists, creating working holidays or student work programs, wherein young people of certain countries may work in Canada for up to one year. Countries with which Canada has these reciprocal agreements include Australia, Japan, Sweden, the United Kingdom and the United States.

Intracompany Transfers

Perhaps the most common exempt category, the exemption for intracompany transfers, is designed to facilitate the transfer of senior personnel from companies affiliated with those established in Canada. The applicant must be employed by the foreign affiliate for a period of time prior to seeking employment authorization in Canada, and must be coming to Canada to take a senior management or executive position. The exemption does not apply to employees who are front-line supervisors, but is restricted to such individuals as general managers or vice presidents, whose responsibilities are essential to the Canadian corporation and who report directly to senior officers.

Substantial Benefit

The substantial benefit exemption is an open category in which a visa officer may use discretion in considering an application that promises significant benefit to Canada, either by creating direct employment for Canadians or by introducing new technology and methods. The applicant need not be self-employed. For example, this exemption may be used if an applicant seeks to establish a new branch office of a foreign corporation or to extend an existing international partnership in Canada. The visa officer must be satisfied that genuine evidence of substantial benefit to the country exists.

Software Professionals Pilot Project

Citizenship and Immigration Canada, in conjunction with HDRC, has developed a pilot program designed to expedite the processing of temporary employment authorizations for certain software professionals.

Self-Employment

An employment authorization (work permit) may be issued to a self-employed individual if a Canadian visa officer is satisfied that the individual has the necessary skills, experience and capital to establish a business in Canada that would result in employment and training opportunities for Canadians. To qualify, the applicant may not be employed by an existing Canadian employer. For example, foreign distributors coming to Canada to recruit or train Canadian distributors might qualify for an employment authorization under this category. In assessing the benefit to Canada in these situations, Canadian immigration officials may not require that employment opportunities result directly from the presence of the foreign national, but may instead be satisfied if the presence of the foreign national results in the dissemination of advanced technology or new methods.

D.8 Residence Permits

Business Executives Immigration Program

Canada has a business executives immigration program designed to attract experienced business people who will create jobs and contribute to Canadian economic development. The two specific categories of business immigrants are entrepreneurs and investors.

Entrepreneurs

Entrepreneurs are experienced business people who wish to buy or start a business in which they have an active and ongoing managerial role. The business must create jobs for one or more Canadians or permanent residents other than the principal applicant and his or her dependents, and must make a significant contribution to the economy. Applicants must invest a substantial amount in the venture they establish within two years of permanent residency in Canada. Such investment, the employment creation and the applicant's management role are reviewed by Canada immigration officials over this two-year conditional period. This category includes business people who are experienced in managing small and medium-sized enterprises.

Investors

Investors must have proven track records in business, as well as net worth of at least C$800,000 acquired through the foreign nationals' own endeavors. A minimum investment of C$400,000 is locked into government-sponsored investment funds for five years. The principle amount invested is fully insured by the government. Third-party financing may be permitted.

Independent Applicants

An independent applicant—someone outside the business executives immigration program—must have an occupation that is in demand in Canada. Canadian immigration authorities publish a General Occupations List, and points are awarded to various job categories based on the need for employees in that occupation. Aside from the exception noted below, an independent applicant whose occupation is not included on this list is barred from proceeding, meaning that the application cannot be accepted even if he or she accumulates sufficient points from other factors.

However, if an applicant secures a job offer from a Canadian employer, and if the HRDC determines the job is available on a permanent basis to a foreign worker, the applicant receives additional points toward the required total. This validation shelters the applicant from being barred from proceeding, should he or she secure an offer in an occupation not included on the General Occupations List.

D.9 Family and Personal Considerations

Family Members

The spouse and any dependent children of the holder of an employment authorization may enter and reside in Canada for a term concurrent with the principal holder's authorization. These family members are usually issued visitor records to document their status as accompanying family members. Student authorizations for children may be processed in Canada and are routinely issued for primary and secondary schooling. Attendance at a post-secondary institution requires a letter of acceptance from that institution prior to the issuance of the student authorization.

Normally, a spouse or child seeking to work in Canada must qualify independently for an employment authorization. However, a pilot project permitting the spouses of certain highly skilled foreign nationals to work temporarily in Canada is currently in effect. For a spouse to be eligible, the principal applicant must hold an employment authorization with a duration of at least six months, and the spouse must have a job offer from a Canadian employer. Although currently under legislative review, for the purposes of this pilot project, the definition of "spouse" applies only to married couples, and not to same-sex or common law relationships, regardless of the duration of the relationship or the existence of offspring.

Marital Property Regime

Divorce law is under federal jurisdiction in Canada. However, matters of support, property rights and custody are under provincial jurisdiction. The following comments relating to property rights are based on the laws of the province of Ontario. Except in the province of Quebec, which is a civil law jurisdiction, the common law concepts described below are consistent across the provinces, but the statutory law varies.

Ontario law does not provide for community of property between spouses and technically retains the concept of separation of property. However, Ontario has introduced a method, called the equalization of net family properties, for sharing the value of certain property on dissolution of a marriage.

Under the equalization of net family properties, the spouse whose net family property (as calculated pursuant to statutory guidelines) is the lesser of the two spouses is entitled to one-half of the difference. Before marriage, during marriage or at separation, couples may elect out of the equalization of net family properties regime, provided the spouses have agreed by written contract to a specific and alternate basis for the division of property.

Ontario's equalization regime applies to couples who have established a new marital domicile in Ontario. Under statutory law, spouses' property rights are governed by the law in the jurisdiction where both spouses had their last common habitual residence. If no such place exists, Ontario law applies. The equalization regime does not survive a permanent move to another country if the spouses establish a common habitual residence in the foreign country. If Ontario is the last place where the spouses had a common habitual residence, however, the equalization regime continues to apply.

The concept of "net family property" is broad and includes virtually all property that each spouse owns (less debts and liabilities), although certain types of property are expressly excluded or eligible for deduction. For example, property owned on the date of marriage and property acquired by gift or inheritance during the marriage, other than the matrimonial home, is specifically excluded. The proceeds of excluded property (and property acquired with the proceeds, other than the matrimonial home) may remain forever separate property, provided the ownership of such property can be traced.

In Ontario, the right to an equalization of net family property is available only to married spouses and not to unmarried couples of the same sex or opposite sexes who live together in a conjugal relationship. However, statutory support rights apply on the breakdown of a marriage or on death for legally married spouses, as well as for couples of the same sex or opposite sexes who lived together in a conjugal relationship. Similar support provisions exist in other Canadian provinces.

Forced Heirship

Canadian succession law does not include forced heirship rules.

Drivers' Permits

Foreign nationals may drive temporarily in Canada using driver's licenses from their home countries. Because each Canadian province issues driver's licenses independently, rules for foreigners vary. In general, foreign nationals have 60 days from the time of their arrival in Canada to obtain a Canadian driver's license. Depending on the province, an eye examination and a driving examination may be required.

Appendices

Appendix 1: Useful Addresses and Telephone Numbers

When telephoning from an international location, the caller must use the international country code for Canada, 1, as a prefix.

Federal Government Agencies	
Citizenship and Immigration Canada	Jean Edmonds South Tower 365 Laurier Avenue West Ottawa, Ontario K1A 1L1 Telephone: (613)954-9019 Facsimile: (613)954-2221 Website: http://www.cic.gc.ca/
Department of Finance Canada	L'Esplanade Laurier 140 O'Connor Street Ottawa, Ontario K1A 0G5 Telephone: (613)992-1573 Facsimile: (613)996-8404 Website: http://www.fin.gc.ca/
Department of Foreign Affairs and International Trade	Lester B. Pearson Building 125 Sussex Drive Ottawa, Ontario K1A 0G2 Telephone: (613)996-9134 Facsimile: (613)952-3904 Website: http://www.dfait-maeci.gc.ca/
Human Resources Development Canada (HRDC)	140 Promenade du Portage Hull, Quebec, K1A 0J9 Telephone: (613)994-6318 Facsimile: (613)953-7260 Website: http://www.hrdc-drhc.gc.ca/
Industry Canada	235 Queen Street Ottawa, Ontario K1A 0H5 Telephone: (613)944-4000 Facsimile: (613)996-9709 Website: http://www.ic.gc.ca/

Revenue Canada	875 Heron Road Ottawa, Ontario K1A 0L5 Telephone: (613)952-3741 Facsimile: (613)941-2505 Website: http://www.ccra-adrc.gc.ca/
Major Stock Exchanges	
Toronto Stock Exchange (TSE)	The Exchange Tower 2 First Canadian Place 130 King Street West Toronto, Ontario M5X 1J2 Telephone: (416)947-4670 Facsimile: (416)947-4662 Website: www.tse.com
Canadian Venture Exchange (CDNX)	P.O. Box 10333 609 Granville Street Vancouver, British Columbia V7Y 1H1 Telephone: (604)689-3334 Facsimile: (604)688-6051 Website: www.cdnx.com
Major Business and Commercial Organizations	
Alliance of Manufacturers and Exporters Canada	5995 Avebury Road Suite 900 Mississauga, Ontario L5R 3P9 Telephone: (905)568-8300 Facsimile: (905)568-8330 Website: http://www.cme-mec.ca/
Business Council on National Issues	90 Sparks Street Suite 806 Ottawa, Ontario K1P 5B4 Telephone: (613)238-3727 Facsimile: (613)236-8679 Website: www.bcni.com

Canadian Chamber of Commerce	350 Sparks Street Suite 501 Ottawa, Ontario K1R 7S8 Telephone: (613)238-4000 Facsimile: (613)238-7643 Website: www.chamber.ca
Canadian Federation of Independent Business	4141 Yonge Street Suite 401 Willowdale, Ontario M2P 2A6 Telephone: (416)222-8022 Facsimile: (416)222-4337 Website: www.cfib.ca
Canadian Importers Association	438 University Avenue Suite 1618 Toronto, Ontario M5G 2K8 Telephone: (416)595-5333 Facsimile: (416)595-8226 Website: www.importers.ca
Canadian Standards Association	178 Rexdale Boulevard Rexdale, Ontario M9W 1R3 Telephone: (416)747-4000 Facsimile: (416)747-2475 Website: http://iisd.ca/business/csaorg.htm

Appendix 2: Economic Performance Statistics

The following table presents leading indicators of Canada's economy from 1997 through 2000.

	1997	*1998*	*1999*	*2000*
Increase in real GDP (%)	4.3	3.9	5.1	4.4
GDP (1997 C$ millions) at market prices	885,022	919,770	966,362	1,009,182
Consumer price index (%)*	1.6	1.0	1.7	2.7
GDP per capita (C$)	29,555	30,313	32,019	34,380
GDP per capita (US$)	30,435	31,449	32,440	33,482
Unemployment rate (%)	9.1	8.3	7.6	6.8
Exports (C$ billions)	303.4	326.2	365.2	422.6
Imports (C$ billions)	277.7	303.4	326.8	363.3
Trade balance (C$ billions)	25.7	22.8	38.4	59.3

* The base year for the consumer price index is 1992.

Source: Conference Board of Canada and *Canadian Economic Observer*.

Appendix 3: Exchange Rates

The following table provides the average annual exchange rates of the Canadian dollar against major foreign currencies from 1997 through 2001.

	Canadian Dollars per Unit of Foreign Currency				
	1997	*1998*	*1999*	*2000*	*2001*
British pound	2.27	2.46	2.40	2.25	2.23
Euro	N/A*	N/A*	1.58	1.37	1.39
European Currency Unit	1.57	1.67	N/A*	N/A*	N/A*
French franc	0.24	0.25	0.24	0.21	0.21
German mark	0.80	0.85	0.81	0.70	0.71
Japanese yen (per ¥100)	1.15	1.14	1.31	1.38	1.28
U.S. dollar	1.48	1.49	1.49	1.49	1.55

* N/A: Not Applicable

Source: Bank of Canada.

Appendix 4: Major Trading Partners

The following table presents Canada's leading trading partners in 2000.

	Exports %	*Imports* %
United States	87.1	64.3
EU (excluding France and Germany)	4.6	10.4
Japan	2.2	4.7
United Kingdom	1.4	3.6
Germany	0.8	2.2
China	0.9	3.2
South Korea	N/A	1.4
France	0.5	1.2
Mexico	0.5	3.4

Source: Statistics Canada.

Appendix 5: Leading Imports and Exports

The following table presents Canada's leading exports and imports by major product categories in 2000.

	*Exports C$ (millions)**	*Imports C$ (millions)**
Machines and equipment	121,757	145,605
Automobile products	74,751	60,908
Industrial goods	52,405	54,407
Consumer goods	13,044	30,656
Agricultural and fish products	22,623	15,451
Energy products	24,155	11,265
Forest products	29,580	2,177

* Amounts expressed in 1992 C$.

Source: Statistics Canada, *Canadian Economic Observer*.

Appendix 6: Corporate Tax Calculation

The following illustrates the calculation of tax for a corporation earning C$100,000 under four different assumptions. The calculation assumes the corporation is resident in Ontario and has a 31 December year-end. Rates are effective as of 1 January 2001. It ignores capital taxes, which may apply.

	Manufacturing and Processing Income		*Other Income*	
	Eligible for SBD (a) C$	*Excess C$*	*SBD (a) C$*	*Excess C$*
Taxable income	100,000	100,000	100,000	100,000
Calculation of Federal Tax				
Basic federal tax: C$100,000 at 38%	38,000	38,000	38,000	38,000
Less: Provincial abatement: C$100,000 at 10%	(10,000)	(10,000)	(10,000)	(10,000)
Less: Rate reduction C$100,000 at 1% (b)	—	—	—	(1,000)
Less: Small business deduction: C$100,000 at 16%	(16,000)	—	(16,000)	—
Less: M&P credit: C$100,000 at 7% (c)	—	(7,000)	—	—
Basic federal tax	12,000	21,000	12,000	27,000
Federal surtax (d): C$28,000 at 4%	1,120	1,120	1,120	1,120
Total federal tax	13,120	22,120	13,120	28,120
Calculation of Provincial Tax				
Basic provincial rate (f): C$100,000 at 14%	14,000	14,000	14,000	14,000
Less: Provincial small business deduction: C$100,000 at 7.5%	(7,500)	—	(7,500)	—
Less: Provincial M&P credit (e): C$100,000 at 2%	—	(2,000)	—	—
Basic provincial tax	6,500	12,000	6,500	14,000

	Manufacturing and Processing Income		Other Income	
	Eligible for SBD (a)	*Excess*	*SBD (a)*	*Excess*
	C$	*C$*	*C$*	*C$*
Calculation of Total Tax				
Combined federal and provincial taxes	19,620	34,120	19,620	42,120

(a) Small business deduction (SBD). The first C$200,000 of active business income earned by a Canadian Controlled Private Corporation (CCPC) is eligible for the SBD, equal to 16% of such income. The SBD rate applicable to income of a CCPC between C$200,000 and C$300,000 is 7%. The C$200,000 limit must be shared by associated corporations, and is also reduced when the associated group's taxable capital, computed for Large Corporations Tax purposes, employed in Canada in the preceding year exceeds C$10 million. An Ontario surtax is levied on corporations claiming the Ontario SBD, gradually reducing the benefit of the deduction if taxable income exceeds C$200,000. The surtax applies to taxable income between C$200,000 and C$500,000, with the deduction being completely eliminated at taxable income of approximately C$500,000.

(b) The general corporate rate will be reduced over a five-year period. A 1% reduction is effective 1 January 2001 (2% reduction effective 1 January 2002; 2% reduction effective 1 January 2003; final 2% reduction effective 1 January 2004). These reductions do not apply to corporations that receive a rate reduction due to the M&P credit or the SBD, nor will they apply to investment income that benefits from refundable tax provisions or income from resource activities.

(c) The manufacturing and processing profits (M&P) credit is applied at a rate of 7% and is available only for income not eligible for the SBC.

(d) The federal surtax is 4% of the basic federal tax less the provincial abatement.

(e) Ontario allows an M&P credit equal to 2%.

(f) The following are the applicable rates for Ontario:

Ontario	*2001*	*2002*	*2003*	*2004*	*2005*
General rate (%)	14%	12.5%	11%	9.5%	8%
M&P rate (%)	12%	11%	10%	9%	8%
Small business rate (%)	6.5%	6%	5.5%	5%	4%
Small business phase-out range (C$)	240,000 to 600,000	280,000 to 700,000	320,000 to 800,000	360,000 to 900,000	400,000 to 1,000,000

Appendix 7: Treaty Withholding Tax Rates

The rates in the following table reflect the lower of the treaty rate and the rate under domestic tax law for dividends, interest and royalties paid from Canada to residents of various treaty countries. Exceptions or conditions may apply, depending on the terms of the particular treaty.

Residence of Recipient	*Dividends %*	*Interest (a) %*	*Royalties (b)(c) %*
Algeria	15	15/0	15/0 (ii)
Argentina	15/10	12.5/0	15/10/5/3
Australia	15	15	10
Austria	15/5 (r)	10	10/0
Bangladesh	15	15	10
Barbados	15	15	10
Belgium	15	15	10
Brazil	25/15	15/10	25/15
Bulgaria (ee)	15/10 (ee)	10	10
Cameroon	15	15	15
Chile	15/10 (u)	15	15
China	15/10	10/0	10
Côte d’Ivoire	15	15	10
Croatia	15/5 (w)	10	10
Cyprus	15	15	10
Czechoslovakia (d)	15/10	10	10
Denmark	15/10/5 (q)	10	10/0 (g)
Dominican Republic	18	18	18

Residence of Recipient	*Dividends %*	*Interest (a) %*	*Royalties (b)(c) %*
Ecuador (mm)	15/5 (mm)	15/0	15/10 (mm)
Egypt	15	25/15 (f)	15
Estonia	15/5	10/0	10
Finland	15/10	10	10
France	15/10/5 (m)	10/0	10/0 (g)
Germany (ll)	15	15/0	10
Guyana	15	15	10
Hungary	15/10/5	10	10
Iceland	15/5 (r)	10/0	10/0 (jj)
India	25/15	15/0	20/15/10 (o)
Indonesia	15/10 (z)	10	10
Ireland	15/0	15	15/0
Israel	15	15	15
Italy	15	15/0	10/0
Jamaica	15	15	10
Japan	15/5 (dd)	10/0	10
Jordan	15/10 (t)	10/0	10
Kazakhstan	15/5 (r)	10	10
Kenya	25/15	15	15
Korea	15	15/0	15
Kyrgyzstan	15	15/0	10/0 (y)

Residence of Recipient	*Dividends %*	*Interest (a) %*	*Royalties (b)(c) %*
Latvia	15/5	10/0	10
Lebanon (ff)	15/5 (ff)	10	10/5 (ff)
Lithuania	15/5 (x)	10/0	10
Luxembourg	15/10/5 (aa)	15/0 (cc)	10/0 (jj)
Malaysia	15	15	15
Malta	15	15	15
Mexico	15/10	15/0	15/0
Morocco	15	15	10/5
Netherlands	15/10/5 (kk)	10/0	10/0 (g)
New Zealand	15	15	15
Nigeria	15/12.5 (v)	12.5	12.5
Norway	15	15	15/10/0
Pakistan	20/15	25	15
Papua New Guinea	15	10	10
Peru (nn)	15/10 (nn)	15	15
Philippines	15	15	10
Poland	15	15	10
Portugal	15/10 (gg)	10	10
Romania	15	15	15/10
Russian Federation	15/10	10/0	10/0 (p)
Senegal (oo)	15	15/0	15

Residence of Recipient	*Dividends* %	*Interest (a)* %	*Royalties (b)(c)* %
Singapore	15	15	15
Slovenia (pp)	15/5 (pp)	10/0	10
South Africa	15/5	10/0	10/6 (l)
Spain	15	15/0	10/0
Sri Lanka	15	15	10/0
Sweden	15/10/5 (bb)	10/0	10/0 (jj)
Switzerland	15/10/5 (n)	10/0	10/0 (jj)
Tanzania	25/20	15/0	20
Thailand	15	15	15/5
Trinidad and Tobago	15/5	10	10/0
Tunisia	15	15/0	20/15
Ukraine	15/5	10/0	10
USSR (e)	15	15/0	10/0
United Kingdom	15/10	10/0	10/0
United States	15/10/5 (h)	10/0 (i)	10/0 (p)
Uzbekistan	15/5 (hh)	10/0	10/5 (jj)
Venezuela (qq)	15/10 (qq)	10/0	10/5 (qq)
Vietnam	15/10/5 (s)	10/0	10
Zambia	15	15	15
Zimbabwe	15/10	15	10
Nontreaty countries	25	25 (j)	25 (k)

(a) The lower rate usually applies to government debt or government-assisted debt.

(b) The lower rate usually applies to royalties on cultural works or to royalties relating to computer software, patents and know-how.

(c) Withholding tax of 25% applies if the royalties relate to the use of real or immovable property, including resource property.

(d) Canada honors the Czechoslovakia treaty with respect to the Czech and Slovak Republics. Canada has signed tax treaties with the Czech and Slovak Republics, which have not yet entered into force. For withholding taxes, these treaties will be effective from 1 January of the calendar year following the year in which they enter into force. Under the Czech Republic treaty, a withholding tax rate of 5% will apply to dividends paid to a company that controls at least 10% of the voting power in the payer unless the payer is a nonresident-owned investment corporation (NRO). A rate of 15% will apply to other dividends. A rate of 10% will apply to interest (other than interest on certain government-assisted debt and certain other categories of interest, which will be exempt) and royalties. Under the Slovak Republic treaty, a withholding tax rate of 5% will apply to dividends paid to a company that controls at least 10% of the voting power in the payer unless the payer is an NRO. A rate of 15% will apply to other dividends. A rate of 10% will apply to interest other than interest on certain government or government-assisted debt, which will be exempt from withholding tax. Royalties will generally be subject to a 10% rate; royalties pertaining to certain cultural works will be exempt from withholding tax.

(e) Belarus is honoring the USSR treaty, and consequently that treaty continues to be in force with respect to Belarus. Canada has entered into tax treaties with Estonia, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, the Russian Federation, Ukraine and Uzbekistan. The withholding rates under these treaties are listed in the table. Azerbaijan, Tajikistan and Turkmenistan have announced that they are not honoring the USSR treaty, but negotiations for new treaties with these countries have not yet begun. Tax treaty negotiations with Moldova have begun.

(f) The higher rate applies to mortgage interest in Egypt.

(g) The 0% rate applies to certain copyright royalties and to royalties for the use of, or the right to use, computer software, patents or information concerning industrial, commercial or scientific experience. The 10% rate applies to other royalties.

(h) The 5% rate applies to dividends paid to corporate shareholders owning at least 10% of the voting shares of the Canadian company. The 10% rate applies to dividends paid by NROs if the recipient owns a substantial shareholding. The 15% rate applies to other dividends.

(i) The 0% rate applies to, among other items, interest payments that are exempt under Canadian domestic law.

(j) Interest on certain government and long-term debt obligations is exempt from withholding tax.

(k) Most copyright royalties are exempt from withholding tax.

(l) The 6% rate applies to royalties paid on cultural works, copyrights, computer software, patents and certain types of information.

(m) The 5% rate applies if the dividends are paid by a Canadian corporation that is not an NRO to a French corporation that controls at least 10% of the votes of the payer. The 10% rate applies if the dividends are paid by a Canadian corporation that is an NRO to a French corporation controlling at least 10% of the votes of the payer.

(n) The 5% rate applies to dividends paid to corporations owning at least 10% of the voting shares and capital of the payer. The 10% rate applies to dividends paid by NROs.

(o) For the first five years that the treaty is in effect, the general rate is 20%. If the payer is the Canadian government, a political subdivision or a public sector company, the rate is reduced to 15%. After the first five years, the general rate is 15%, and payments for the use of, or the right to use, certain industrial, commercial or scientific equipment may qualify for a 10% rate. The treaty took effect in Canada on 1 January 1998 and in India on 1 April 1998.

(p) The 0% rate applies to royalties on cultural works as well as to payments for the use of, or the right to use, computer software, patents and information concerning industrial, commercial and scientific experience.

(q) The 5% rate applies if the beneficial owner of the dividends is a corporation that holds directly at least 25% of the capital of the payer. The 10% rate applies if the beneficial owner of the dividends is a corporation that holds directly or indirectly at least 25% of the capital of the payer and if the payer is an NRO.

(r) The 5% rate applies if the beneficial owner of the dividends is a company that controls, directly or indirectly, at least 10% of the voting power of the payer, unless the payer is an NRO.

(s) The 5% rate applies if the beneficial owner of the dividends controls at least 70% of the voting power of the payer. The 10% rate applies if the beneficial owner of the dividends controls at least 25%, but less than 70%, of the voting power of the payer.

(t) The 10% rate applies if the recipient of the dividends is a company that controls directly or indirectly at least 10% of the voting power of the payer, unless the payer is an NRO.

(u) The 10% rate applies if the beneficial owner of the dividends is a corporation that controls at least 25% of the voting power of the payer.

(v) The 12.5% rate applies if the recipient is a company that controls at least 10% of the votes of the payer.

(w) The 5% rate applies to dividends paid to a resident of Croatia that controls at least 10% of the voting power of the payer or that holds at least 25% of the capital of the payer. The 5% rate does not apply if the payer is an NRO.

(x) The 5% rate applies if the beneficial corporate owner of the dividends controls at least 25% of the voting power of the payer corporation (other than an NRO).

(y) The 0% rate generally applies to royalties for certain cultural works and for computer software, patents, copyrights and information concerning industrial, commercial and scientific experience, if the payer and recipient are not associated persons (as defined).

(z) The 10% rate applies to dividends paid to a company holding at least 25% of the capital of the payer.

(aa) The 5% rate applies if the recipient of the dividends controls directly or indirectly at least 10% of the voting power of the payer. The 10% rate applies if the dividends are paid by an NRO to a company that owns at least 25% of the capital of the payer.

(bb) The 5% rate applies if the beneficial owner of the dividends is a corporation that either controls directly at least 10% of the voting power of the payer or holds directly at least 25% of the capital of the payer and if the payer is not an NRO. The 10% rate applies to dividends paid to beneficial owners described in the preceding sentence if the payer is an NRO.

(cc) The 0% rate applies to interest on certain government and government-assisted debt, and to certain other interest.

(dd) The 5% rate applies to dividends paid to a company that owns at least 25% of the voting shares of the payer for the last six months of the accounting period for which the distribution of profits takes place.

(ee) The treaty was signed on 3 March 1999, but it has not yet been ratified. The 10% rate for dividends will apply if the recipient is a company that controls at least 10% of the votes of the payer.

(ff) The treaty was signed on 29 December 1998, but it has not yet been ratified. The 5% rate for dividends will apply if the recipient is a company that controls at least 10% of the votes of the payer. The 5% rate for royalties will apply to royalties for copyrights, certain computer software, patents and know-how.

(gg) The 10% rate applies if the recipient is a company that controls at least 25% of the voting power of the payer.

(hh) The 5% rate applies if the recipient is a company that controls at least 10% of the voting power in the payer.

(ii) The 0% rate generally applies to royalties relating to computer software or patents.

(jj) The lower rate applies to royalties for certain cultural works, and generally to royalties for computer software, patents and know-how.

(kk) The 5% (10% for NROs) rate applies if the beneficial owner of the dividends owns at least 25% of the capital or controls, directly or indirectly, 10% of the voting power of the payer.

(ll) Canada has signed a new tax treaty with Germany to replace the existing treaty between the countries, but the new treaty is not yet in force. After the new treaty enters into force, it will be effective from 1 January 2001 for withholding taxes. The withholding tax rates under the existing treaty between the countries are shown in the table. Under the new treaty, a 5% rate will apply to dividends if the beneficial owner of the dividends is a company that controls at least 10% of the voting power in the payer. A 15% rate will apply to other dividends. A 0% rate will apply to interest on certain government or government-assisted debt, and to interest from certain other sources. A 10% rate will apply to other interest. A 0% rate will apply to royalties on certain cultural works, computer software, patents or know-how. A 10% rate will apply to other royalties.

(mm) The treaty was signed on 28 June 2001, but it has not yet been ratified. The 5% rate for dividends will apply if the recipient is a company that controls at least 25% of the voting power of the payer, but the rate will not apply to dividends paid by NROs. The 10% rate for royalties will apply to royalties for the use of, or the right to use, industrial, commercial or scientific equipment.

(nn) The treaty was signed on 20 July 2001, but it has not yet been ratified. The 10% rate for dividends will apply if the recipient is a company that controls at least 10% of the voting power of the payer.

(oo) The treaty was signed on 2 August 2001, but it has not yet been ratified.

(pp) The treaty was signed on 15 September 2000, but it has not yet been ratified. The 5% rate for dividends will apply if the recipient is a company that controls at least 10% of the voting power in the payer, but the rate will not apply to dividends paid by NROs.

(qq) The treaty was signed on 10 July 2001, but it has not yet been ratified. The 10% rate for dividends will apply if the recipient is a company that controls at least 25% of the voting power in the payer. The 5% rate for royalties will apply to royalties with respect to copyrights and certain computer software, patents and know-how.

Appendix 8: Individual Income Tax Calculation

This illustration uses the personal tax rates in effect at 31 December 2001. It assumes that the individual is resident in Ontario on 31 December 2001. The individual has taxable income of C$100,000, does not have dependents, and is not eligible for tax credits, except for the basic personal credit.

	C$	*C$*
Taxable income		100,000
Calculation of Federal Tax		
C$30,754 at 16%	4,921	
C$30,755 at 22%	6,766	
C$38,491 at 26%	10,008	
C$100,000		
Federal tax before credits	21,695	
Basic personal credit	(1,186)	
Total federal tax		20,509
Calculation of Ontario Provincial Tax		
C$30,814 at 6.2%	1,910	
C$30,815 at 9.24%	2,847	
C$38,371 at 11.16%	4,282	
C$100,000		
Provincial tax	9,039	
Ontario tax credit	(460)	
Ontario provincial surtax (a)	1,004	
Additional provincial surtax (b)	1,472	
Total provincial tax		11,055
Calculation of Total Tax		
Combined federal and provincial tax		31,564

(a) Ontario provincial surtax is calculated at 20% of provincial tax net of nonrefundable tax credits in excess of C$3,560 [(C$9,039 – C$460 – C$3,560) x 20% = C$1,004].

(b) Additional provincial surtax is calculated at 36% of provincial tax net of nonrefundable tax credits in excess of C$4,491 [(C$9,039 – C$460 – C$4,491) x 36% = C$1,472].

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