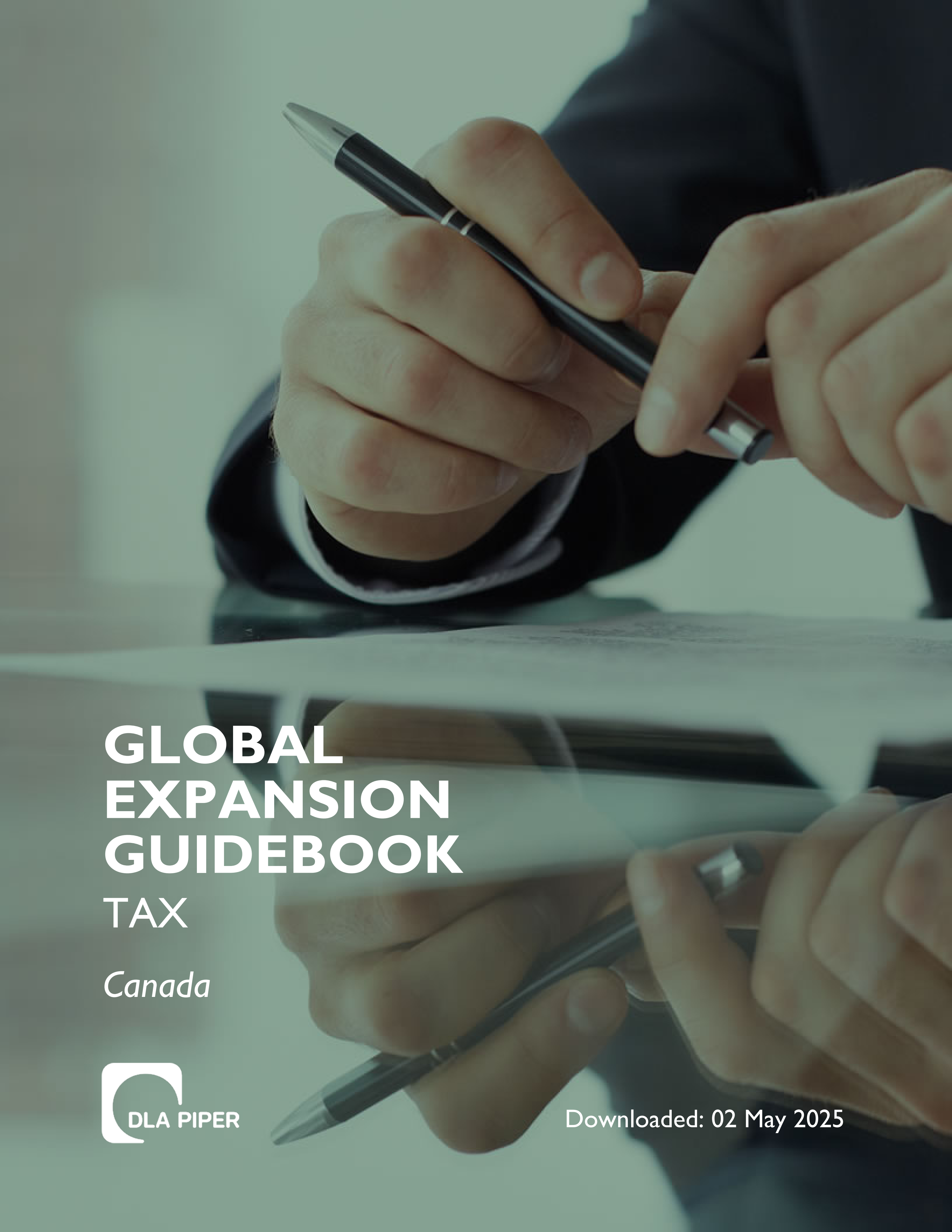

GLOBAL EXPANSION GUIDEBOOK

TAX

Canada

INTRODUCTION

Welcome to the 2024 edition of DLA Piper's *Global Expansion Guidebook – Tax.*

GLOBAL EXPANSION GUIDEBOOK SERIES

Many companies today aim to scale their businesses globally and into multiple countries simultaneously. In order to help clients meet this challenge, we have created a handy set of global guides that cover the basics companies need to know.

The *Global Expansion Guidebook* series reviews business-relevant corporate, employment, intellectual property and technology, global equity and tax laws in key jurisdictions around the world.

TAX

Multinational companies continue to expand globally at an ever faster pace. Successful expansion depends, in part, on strategic and effective tax planning and compliance. This guide, brought to you by DLA Piper's Tax group summarizes the key features of tax laws in 41 popular jurisdictions.

This guide addresses common tax questions, by jurisdiction, including:

- Taxation of resident companies and non-resident companies
- Availability of tax holidays, rulings, and favorable tax regimes
- Ability to use losses to offset income
- Anti-deferral (ie CFC) rules
- Withholding taxes
- Employment tax issues

With more than 300 tax lawyers and economists in offices throughout the Americas, Europe and Asia Pacific, DLA Piper's global tax advisory services help multinational companies address the complex challenges of international commerce and business operations as well as manage and resolve tax audits. Our global tax group also assists clients in structuring a wide range of transactions, from private equity deals to corporate acquisitions and disposals. We provide these tax services across our global platform, while at the same time offering clients the benefits of the attorney-client and work-product privileges.

The information in this guide is an accessible, high-level summary of the tax laws in each jurisdiction. This is not a substitute for legal or tax advice. If you have specific questions or require detailed advice, we encourage you to contact one of the attorneys listed in the contributors section of this guide.

We hope that you find this guide valuable and we welcome your feedback.

CANADA

Last modified 19 June 2024

RESIDENCE AND BASIS FOR TAXATION

A corporation formed in a Canadian jurisdiction is treated as a Canadian-resident corporation for Canadian tax purposes. A corporation formed outside of Canada can also be treated as a Canadian-resident corporation if its central "mind and management" is in Canada, subject to any relief provided under an applicable tax treaty.

Domestic

A resident corporation is subject to Canadian tax on its worldwide income. A Canadian-resident corporation generally is not subject to Canadian tax on the income of its foreign subsidiaries unless an anti-deferral provision applies (eg, the foreign accrual property income rules).

Foreign

Non-resident corporations are not generally subject to Canadian income tax except on:

- Income earned from carrying on business in Canada;
- Income arising on the disposition of taxable Canadian property; and
- Certain types of cross-border payments which are subject to non-resident withholding taxes. Income tax treaties can reduce or eliminate these taxes.

TAXABLE INCOME

Domestic

Taxable income of a resident corporation is generally equal to all gross income less applicable deductions.

Foreign

Income earned in Canada (including one-half of capital gains arising as a result of the disposition of taxable Canadian property) is generally subject to Canadian income tax at general tax rates. Branch profits tax may also apply to income earned in Canada that is repatriated by a non-resident corporation. Income tax treaties can reduce or eliminate these taxes.

TAX RATES

The federal general corporate tax rate for 2024 is 15 percent on general active business income, and the combined federal and provincial corporate tax rates for 2024 range from 23 percent to 31 percent depending on the provinces in which the permanent establishments of a corporate taxpayer are located.

TAX COMPLIANCE

Corporate income tax returns are generally due no later than 6 months after the end of each tax year. A corporate income tax return must generally be filed no later than 3 years after the end of the relevant tax year to receive a tax refund.

ALTERNATIVE MINIMUM TAX

Corporations (non-resident or resident) are not subject to federal alternative minimum tax in Canada. A corporate minimum tax may be imposed at the provincial level.

TAX HOLIDAYS, RULINGS AND INCENTIVES

Tax holidays

Not applicable for this jurisdiction.

Tax rulings

Under certain circumstances, taxpayers can request a private letter ruling that applies to the specific issues addressed therein.

Tax incentives

There are tax incentives for specific activities, including in respect of scientific research and experimental development and certain Canadian production, resource exploration and development and renewable energy activities.

CONSOLIDATION

Canada does not allow income tax returns to be filed on a consolidated basis for affiliated or related corporations.

PARTICIPATION EXEMPTION

There is no general participation exemption for dividends or capital gains recognized on the stock of foreign subsidiaries. If certain ownership and source requirements are satisfied, a deduction may apply with respect to dividends received from certain domestic and foreign corporations.

CAPITAL GAIN

Half of a capital gain earned by a corporation is required to be included in computing the taxable income of the corporation. Capital losses may be applied to reduce capital gains, but not regular income, of a corporation for tax purposes.

DISTRIBUTIONS

Distributions paid by a corporation are generally treated as dividends. Certain distributions on shares of a corporation, such as returns of capital (to the extent of the paid-up capital in respect of the relevant shares), may generally be returned to shareholders on a tax-free basis.

LOSS UTILIZATION

Non-capital losses may generally be carried forward 20 taxation years and back 3 taxation years, subject to certain loss limitation rules. Net capital losses may generally be carried forward indefinitely and back 3 taxation years, subject to certain loss limitation rules.

TAX-FREE REORGANIZATIONS

Certain qualifying corporate reorganizations, combinations and divisions may be eligible to be executed on a tax-deferred basis for federal tax purposes, subject to the detailed statutory restrictions in the *Income Tax Act* Canada). Certain special rules apply to cross-border reorganizations.

ANTI-DEFERRAL RULES

FAPI

Under the foreign accrual property income (FAPI) rules, a Canadian-resident corporation may be subject to tax on a current basis in respect of "passive income" of a controlled foreign affiliate.

OIFP

Under the offshore investment fund property (OIFP) rules, a Canadian-resident corporation may be subject to tax on a prescribed basis in respect of interests in certain non-resident entities.

FOREIGN TAX CREDITS

Subject to certain limitations and restrictions, foreign tax credits or deductions may be available to be claimed in respect of certain foreign taxes paid.

SPECIAL RULES APPLICABLE TO REAL PROPERTY

Generally, any gain realized by a non-resident person on the disposition of Canadian real property may be taxable in Canada.

TRANSFER PRICING

Arm's-length principles generally are applied under Canadian tax law to transactions between a taxpayer and any non-resident person with which the taxpayer does not deal at arm's length. The applicable Canadian rules are similar in many respects to the OECD guidelines, with certain material differences.

WITHHOLDING TAX

Dividends, royalties, interest, rents, etc

A 25-percent withholding tax applies to dividends, certain royalties, interest payments to non-arm's length persons, rent, and certain other payments made by a resident corporation to a non-resident person, subject to reduction under an applicable income tax treaty.

Service fees

Withholding tax may apply to certain payments in respect of services rendered by a non-resident, particularly where the services are rendered in Canada, subject to reduction under an applicable income tax treaty.

CAPITAL DUTY, STAMP DUTY AND TRANSFER TAX

Canada does not levy a general capital tax, but federal and provincial capital taxes may be imposed on certain financial institutions. Canada does not have a general stamp duty; however, transfer taxes may be imposed at the provincial level. Some provinces and municipalities also impose speculation tax or vacancy taxes on residential properties.

EMPLOYMENT TAXES

Employers must withhold federal income tax, Canada Pension Plan (CPP), or Quebec Pension Plan (QPP), contributions and Employment Insurance (EI) premiums from compensation paid to employees. Employers must also pay the employer's portion of the CPP (or QPP) contribution and the employer's portion of the EI premium in respect of compensation paid to employees. These contributions are generally deductible by an employer for Canadian income tax purposes. Other withholding obligations and taxes, such as employer health tax, may apply at the provincial level.

OTHER TAX CONSIDERATIONS

Not applicable for this jurisdiction.

KEY CONTACTS

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