TRADE COMMISSIONER SERVICE

SERVICE DES DÉLÉGUÉS COMMERCIAUX

A modernized NAFTA & Doing Business in Canada

Frederic Fournier
(Head of Office, Consulate of Canada)

Grant Gilmour
(International Tax Partner, Gilmour Group)

TCS/SDC

Global Affairs Canada
Trade Commissioner Service

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Canada

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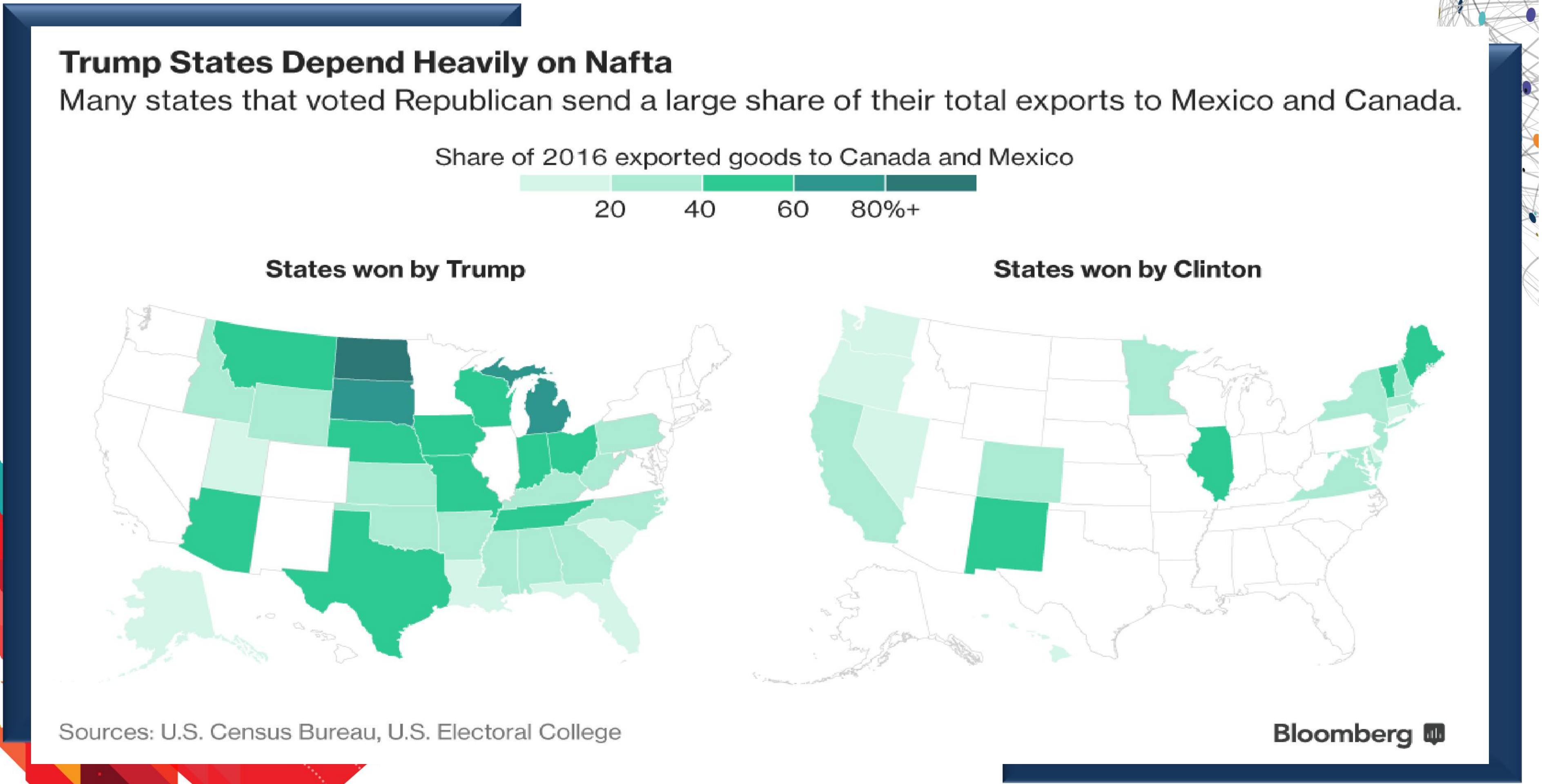
Time for a brief video?

2017 Canada-U.S. Trade…Trade That's Fair & Free

U.S.eh! 🤝 U.S-eh! 🤝 U.S.eh!

- Canada is the United States’ biggest customer.
- Nearly 9 million U.S. jobs depend on trade and investment with Canada.
- 36 States have Canada as #1 export market.
- Canada buys more goods from the U.S. than China, Japan and the UK combined.
- Canada is the largest supplier of energy to the U.S.

The politics



NAFTA: what were the concerns?

- Trade deficits
- Sunset clause
- US content
- Chapter 19

NAFTA – now USMCA

NAFTA vs USMCA: what has changed?

- Car industry
- Milk / IP protection / e-Commerce
- Improved Labor & Environmental Chapters

Moving past NAFTA/USMCA discussion today:

What else affects Trade opportunities with Canada?

Tax Opportunities

- Tax cuts and Jobs Act
- Canada USA Tax Treaty
- SR&ED incentives in Canada

Economic Opportunities

- 30% difference between currencies.
- Makes placing some operations in Canada a cost advantage.
- But does not necessarily reduce revenue opportunities

Tax Treaty between Canada and USA is independent and complementary to NAFTA/USMCA.

Tax Treaty

- The tax treaty helps businesses manage and reduce their overall tax cost of doing business in Canada from the US.
- It is reciprocal. So every advantage we give we also get and likewise.
- Key advantages are
  - reduction or elimination of taxes
  - Eligibility for using taxes paid in one country as a credit or reduction of tax in the other country.
  - Clarity on what taxes should be, so that businesses can plan.

Case Studies

Entering Canada as a business is very similar to doing business in another US State

- There are local rules in each province just as there are in each state regarding taxes.
- The key advantage though is that most income and sales taxes are unified under one federal system. This avoids multiple registrations and multiple filings.
- - key issues are
  - identifying thresholds for when to register and report
  - Structuring transactions to “move” tax to where the business is comfortable with the tax compliance and the rules
  - Keeping very clear on what you are and are not registered for and what are filings required.

Case study - Products

An industrial products business with locations in Canada the USA and worldwide.

- Starts with products produced in the USA and shipped to Canada. NAFTA eligible product.
- Generally best for the first test sales to be made FOB shipping facility in USA. This moves sales tax and income tax obligation to USA. Treaty ensures this but might be required to file NIL returns in Canada to claim the benefit. And if tax is charged filing a return is how you get a refund. You file a return and prove that tax should be NIL.

- **Zero income Tax and sales tax In Canada**

Case study – Products phase 2

Sales are going great but customers want to have cost certainty on sales taxes and shipping.

- Move to transactions being written up that they are completed in Canada. The US company registers for sales taxes and income taxes in Canada.
- Still protected by the treaty but now more paperwork. The tradeoff is that customers have a more consistent experience and goods flow under the control of the seller. We call this being a Non-resident importer and the US business has a Canadian Business Number and although no tax is due there may be remittances and recoveries netting to zero.
- **Zero income tax in Canada. Net zero Sales taxes**

Case study – Products phase 3

Sales have gone very well and now we have a full time sales support person in Canada and a need to warehouse in Canada.
Now understandably there is an obligation to register and pay payroll taxes in Canada and income taxes in Canada.
Still likely no net income tax but now paying Canadian income taxes and getting a credit on the US returns

Still zero income tax (be careful). Net zero sales taxes. There is a Payroll tax cost.

Case study – Products phase 4

The Canadian branch now leads the company in sales and there are more staff in Canada than in the USA.

- It is time to ensure that profits in Canada are only taxed in Canada. The extra paperwork is getting onerous.
- Incorporate in Canada and now the taxes are recycling back in to Canada. Only net after tax profits are returned to the USA. Those profits are taxed but we structure the transfer to minimize taxes.

- **Fully in the Canadian tax system. 25% income taxes. Still net zero sales taxes. Payroll tax costs.**

Scientific Research and Experimental Development (SR&ED)

-19% to 74% refunds on expenditures.
-Complementary incentives for hiring.
-IRAP

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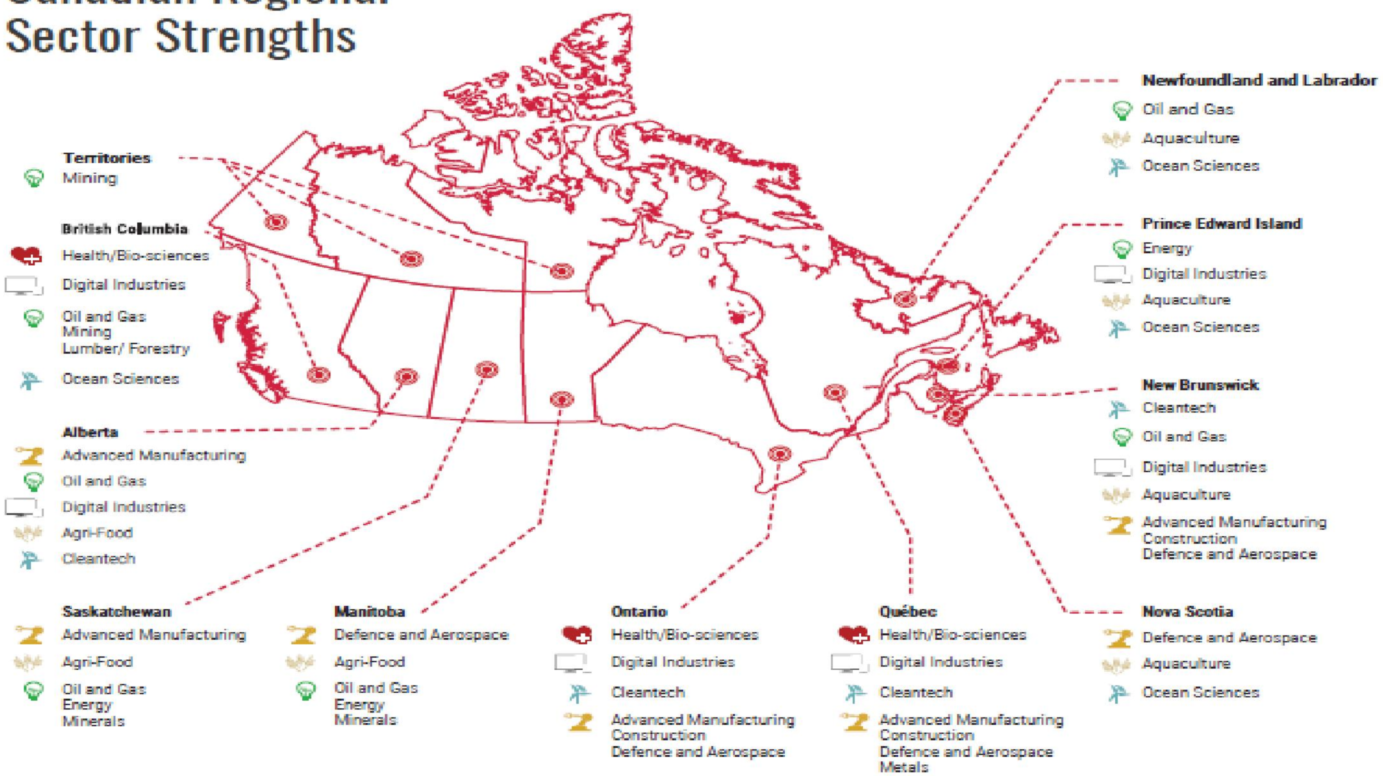
R&D FUNDING IN CANADA

Canadian Regional Sector Strengths



Federal and Provincial/Territorial Corporate Tax Rates 2018

	Small Business Income up to $500,000		Active Business Income Over $500, 000		Investment Income	
Provinces	Provincial Only	With Federal	Provincial Only	With Federal	Provincial Only	With Federal
BC	2%	12%	12%	27%	12%	50.7%
AB	2%	12%	12%	27%	12%	50.7%
SK	2%	2%	2%	17%	12%	50.7%
MB	0*	10%	12%	27%	12%	50.7%
ON	3.5%	13.5%	11.5%	26.5%	11.5%	50.2%
QC	8%	18%	11.7%	26.7%	11.7%	50.4%
NB	2.5%	12.5%	14%	29%	14%	52.7%
NS	3%	13%	16%	31%	16%	54.7%
PE	4.5%	14.5%	16%	31%	16%	54.7%
NL	3%	13%	15%	30%	15%	53.7%
Territories						
YT	2%	12%	12%	27%	12%	50.7%
NT	4%	14%	11.5%	26.5%	11.5%	50.2%
NU	4%	14%	1%	27%	12%	50.7%

**Manitoba's threshold is $450,000*

R&D Tax Credits and Incentives by Provinces

	Available Credit
Federal Scientific Research and Experimental Development Tax Incentive Program	15%
Newfoundland and Labrador	15%
Nova Scotia	15%
New Brunswick	15%
Ontario Innovation Tax Credit (OITC)	8%
Ontario Business-Research Institute	20%
Ontario Research and Development	3.5%
Manitoba Research and Development	15%
Saskatchewan Research and Development	10%<$1M
Alberta Scientific Research and Experimental Development	10% up to 400k
British Columbia Scientific Research and Experimental Development	10% < 300k
Yukon Research and Development	20%

	Available Credit
Alberta Capital Investment Tax Credit (CITC)	<5M
Nova Scotia Innovation Rebate Program	25% up to 1.5M
Saskatchewan Commercial Innovation Incentive (Patent Box)	reduce provincial corporate rate to 6%
Québec tax credit for development of e-business	24% of salaries <$83k per employee
Québec tax credit for private partnership pre-competitive research	varies
Québec tax credit for academic research or research conducted by a public research centre or research consortium	28%
Québec tax credit for contributions to a research consortium	28%
Québec R&D salaries	14%
Prince Edward Island	10% - 25%

How does a 15% federal credit become 74% of total cost?

The incentive formula ranges from regular rates of 39% on wages to the low end on subcontracts of 19% and high end wages in some locations of 74%.

Changes in USA taxation improve the bottom line by reducing the tax paid on profits earned by exports. Incentive to export which can be matched with strategies to pay zero tax in Canada

Foreign-derived intangible income FDII and global intangible low-taxed income GILTI.

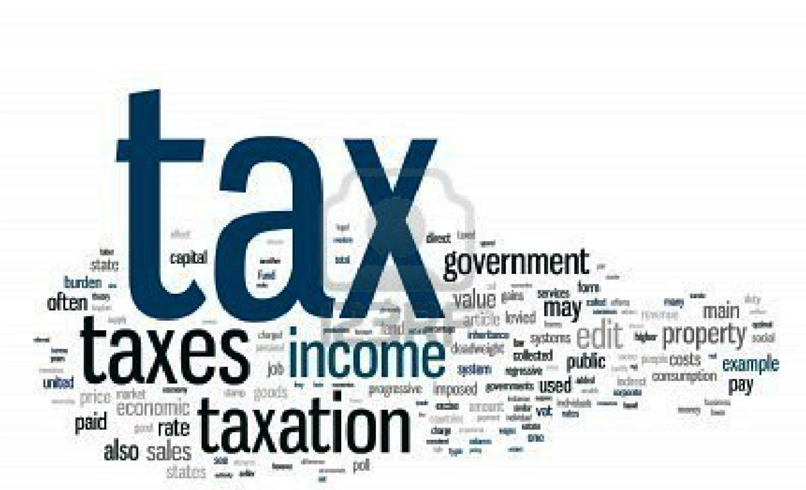
A special deduction based on (FDII) for the year reduces the effective tax rate from 21% tax rate for domestic corporations to 13.125% on FDII.

On a similar concept earnings that are earned out side of USA; GILTI have a an effective rate is 10.5%.

The deduction rates are reduced for tax years after 2025.

Disclaimer. I am a Canadian CPA and this is US Tax. We need to coordinate a US CPA with us as Canadian CPA's to enjoy these low rates and to have the complementary zero rates in Canada.

Questions?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Frederic Fournier
frederic.fournier@international.gc.ca

Grant Gilmour
grantg@gilmour.ca import.gilmour.ca

1-855-464-6009

@TCS_SDC
@SDC_TCS

CanadExport.gc.ca

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