TAXES IN / IMPUESTOS EN AMERICA

2021

THIRD EDITION / TERCERA EDICIÓN

24, Rue de Londres - 75009 Paris - France
Tel: +33 (0) 1 44 15 95 23 - www.euraaudit.org

Canada

Capital city:
Ottawa

Aera:
9,984,670 km²

Population:
37,590,000

Language:
English, French

Political system:
Federativ Constitutionnal parliamentary Monarchy

GDP/capita 2019:
USD 44,410

Currency:
Canadian Dollar (CAD)

ISO Code:
CAN

Telephone code:
+1

National day:
1 July

Canada

1. Income tax

Establishment of the Tax System

The Canadian income tax is authorized under the Constitution Act of 1867. Taxes in Canada are administered through the Canada Revenue Agency (CRA) on behalf of The Government of Canada.

Administration of the tax system

Canada's tax system is administered by self assessment. Citizens are responsible for filing of their own tax returns and proper payment of tax.

Persons and entities required to comply with the CRA tax system

The CRA Tax System is applicable to both individuals and also business entities. It is applicable to residents and non residents alike.

Use of tax funds in Canada

Tax revenue in Canada is spent in many different ways. Some examples are emergency services, infrastructure projects and the military. Additionally, tax revenue helps fund a distribution of wealth to benefit lower income citizens through various tax credits and social programs.

Types of taxes in Canada

- Individual income tax
- Employment taxes
- Capital Gains taxes
- Taxes on investment income
- Corporation income taxes
- Taxes on other business income
- Rental Income taxes

In addition to federal taxes, there are various provincial and territorial taxes that are applicable based on where an individual or business resides. Canada's provinces and territories are as follows:

- Ontario
- Quebec
- British Columbia
- Alberta
- Manitoba
- Saskatchewan
- Nova Scotia
- New Brunswick
- Newfoundland and Labrador
- Prince Edward Island
- Northwest Territories
- Yukon
- Nunavut

1.1 Individual income taxes

Residents

Residents are required to file an income tax return if any of a number of criteria is met. Examples of requirements are owing any tax, being requested by the CRA to file a return and being a deemed resident who disposed of capital property. The required individual return is Form T1. Canadian residents are taxed on their worldwide income. However, Canada does allow a foreign tax credit for foreign taxes paid on foreign income.

Non residents

Nonresidents are required to report and pay tax on their Canadian source income. This is accomplished by the filing of the applicable return by April 30th of the following year. The type of return to be filed depends on the type of income to be reported (employment, sales proceeds, rental, investment). A nonresident is someone who is either a non resident of Canada or someone without significant residential ties in Canada who spends less than 183 days in Canada during the year. Significant residential ties to Canada include a residence in Canada, a spouse in Canada or dependents in Canada. Those leaving or entering Canada need to reference Form NR73 and NR74 to determine residency status. Non residents with Canadian rental property will have 25% of their gross rental income withheld by the payer. In general, this is considered to satisfy a non resident's Canadian tax obligation on their rental income. However an election may be made to be taxed on net income as opposed to gross (Under Section 216).

Types of income

Employment

- Earnings are reported to the employee on a T4 slip provided by the employer. This will include the amount of earnings and also various withholdings.

Rental income

- Rental income is taxable in Canada. It is reported on Form T776, statement of real estate rentals.

The following is a list of expenses deductible against rental income:

- Advertising;
- Insurance;
- Interest;
- Office Expense;
- Legal, accounting and professional fees;
- Management and administration fees;
- Maintenance and repairs;
- Salaries, wages and benefits;
- Property taxes;
- Travel;
- Utilities;
- Motor Vehicle expenses.

- In addition, there are various classes of depreciable property that are used for a capital recovery deduction.

Self Employment income

Self employment income is reported on Form T2125, Statement of Business or Professional Activities. Income is reported under various headings such as Business Income and Professional income. Additionally, information on Internet business and activities must be reported. In additional to normal business expenses, a deduction is allowed for the business use of a home office (assuming certain requirements are met). Assets are expensed by making a Capital Cost Allowance (CCA) claim. Income is taxed at the same rate as employment income. Self employed persons may apply to participate in Employment Insurance.

Interest and investment income

- Interest income is taxed at the taxpayer's marginal rate. Interest income must be reported in the year in which it was received.

- Dividends from Canadian corporations receive preferential tax treatment (unlike interest paid from Canadian corporations). This is true for both federal and provincial and territorial governments. A dividend tax credit works to reduce taxes on dividends paid.
- from a Canadian corporation to a Canadian investor. Foreign dividends are not eligible for this credit.

Federal Individual Income Tax Rates	
15%	firstUSD47,630 of taxable income plus
20,5%	on the nextUSD47,269 of taxable income (on the portion of taxable income over USD47,630 up toUSD95,259) plus
26%	on the nextUSD52,408 of taxable income (on the portion of taxable income over USD95259 up toUSD147,667) plus
29%	on the nextUSD62,704 of taxable income (on the portion of taxable income over-USD147,667 up toUSD210,371
33%	Of Taxable income overUSD210,371

Capital gains income

Capital Gains tax applies to the sale of most property. Certain items must be separately stated on form T1-2014 such as Qualified Small Business Corporation Shares, Qualified Farm Property and real estate and other depreciable property. There is also a lifetime exemption on tax from Qualified Small Business Corporation shares. Tax is calculated on the proceeds less adjusted basis and selling costs. Capital gains are figured on Schedule 3 and reported on line 127 of the income tax return. Capital gains rates are the same as marginal rates.

Non taxable income

There are various types of untaxed income. Lottery winnings, gifts and inheritances, most life insurance proceeds.

Income tax rates

- Individual Federal income tax rates are as follows are included in the chart above.
- Provincial rates may be found on the Canada Revenue Authority Website and are in addition to Federal income tax rates.

Capital Gains

Capital Gains and Losses in Canada are calculated by subtracting from gross proceeds the adjusted cost base (ACB) as well as the "outlays and expenses," paid to sell the property. Once net proceeds are calculated in this manner, the net result is multiplied by the inclusion rate. The resulting figure is the taxable capital gain. In 2019, the inclusion rate is 50%. Meaning, only one half of the net proceeds is taxable. Additionally, only 50% of capital losses may be used to offset capital gains.

Stock Options

Stock options are not taxable until the employee exercises the option. The taxable benefit to the employee is the difference in value between the fair market value of the security received and the amount paid for them. This taxable benefit is reportable in box 14 of the employees T4 slip. There are various types of options available (some with varying tax treatment). They are:

- Employee Stock Purchase Plan (ESPP);
- Stock Bonus Plan;
- Stock Option Plan.

Canadian Individual income tax deductions include the following:

- Pension adjustments;
- Union dues;
- Child Care expenses;
- Business investment losses;
- Moving expense;
- Interest expenses;
- Certain Support payments;
- Certain employment expenses;
- Exploration expenses;
- Clergy deductions;
- Social benefits repayment deduction;
- Canadian Forces deduction;
- Home relocation loan deduction;
- Limited partnership losses;
- Non capital losses;
- Capital losses.

In addition to deductions, there are various credits available including:

- Adoption Expense;

- Caregiver amounts;
- Tuition amounts;
- Donations and Gifts.

Administration - filing of returns and payment of tax

Individual income tax returns are generally due on or before April 30th for the preceding year. Payments are due by April 30th as well; any unpaid amounts will become due on May 1st. Certain taxpayers with untaxed or under taxed income are required to pay their taxes via installments throughout the year.

1.2 Corporate income tax

Types of entitles and overview of statute

- The Canada Corporations Regulations (CRC) provides statutory governance over business in Canada. The regulations were established under the Canada Corporations Act. Various small and mid-sized businesses in Canada are governed under the Canada Business Corporations Act.

- The most common types of Canadian business entities are:

  - Corporations (See below for tax treatment and rates of corporations);
  - Partnerships.

A Partnership is an association of two or more persons or entities that form together to carry on business. The income of a partnership is allocated to and reported by the partners of a partnership. Unlike a corporation, a partnership is not a distinct legal entity from its partners. Certain Partnerships are required to file Form T5013, Partnership Information Return. The return may be filed electronically. Exceptions to filing are returns that have an absolute value of revenues plus an absolute value of expenses of more that USD 2 Million or more than USD 5 million in assets must file. Absolute value is the value of a number without respect to whether it is a positive or negative number.

- Sole Proprietorship

A sole proprietorship is an unincorporated business owned by only one person (as opposed to a partnership which is owned by multiple persons). Like a partnership, it is not a distinct entity from its owner. Income and expense is reported on Form T2125. While a sole proprietorship is not incorporated, it still must comply with various rules and regulations.

Residents

All resident corporations have to file a corporation income tax return (Form T2) every year even if there is no tax due. This includes nonprofit corporations.

Non Residents

Non Residents must file a return if they had business operations in Canada during the year or had a taxable disposition in Canada. A nonresident corporation may always file a return to claim a refund.

Gains

Gains are calculated for a corporation in the same manner as for an individual.
(To recap, Capital Gains and Losses in Canada are calculated by subtracting from gross proceeds the adjusted cost base (ACB) as well as the "outlays and expenses," paid to sell the property. Once net proceeds are calculated in this manner, the net result is multiplied by the inclusion rate).

Calculation of Taxable income

Canadian corporation net income for tax purposes is calculated by beginning with financial statement net income and applying a series of additions and subtractions to arrive at taxable income. Examples of additions would be non-allowable expenses such as non deductible club dues and fees and non deductible life insurance premiums. Examples of non taxable subtractions are certain holdbacks and certain financial statement gains. The additions and subtractions are figured on Schedule 1. Certain other schedules are required to arrive at taxable income including Schedule 6, Summary of Dispositions of Capital Property and Schedule 8, Capital Cost Allowance (CCA).

Deductions

In general, any expense that is currently incurred in an effort to earn income is deductible. Personal expenses are not deductible. A list of most common deductions follows:

- Advertising;
- Allowance on eligible capital property;
- Bad debt;
- Start up costs;
- Licenses and Tax;
- Capital Cost allowance;
- Delivery and freight;

- Fuel;
- Insurance;
- Interest;
- Professional fees;
- Maintenance and repairs;
- Management and Administration;
- Meals and entertainment (only a portion is deductible);
- Motor Vehicle Expenses;
- Office Expenses;
- Prepaid Expenses;
- Property taxes;
- Rent;
- Salaries and Wages;
- Supplies;
- Telephone;
- Travel.

Administration: Rates, Returns, Payment, Appeals

Canadian corporate tax rates are as follow:

- Federal rates: 38% of taxable income, 28% after federal tax abatement. The net tax rate is 15% effective 1 January 2012.

Provincial and territorial rate are as follows:

Canadian Provincial Corporate Income Tax Rates

Province or territory	**Lower rate**	**Higher rate**
Newfoundland and Labrador	3.0%	15.0%
Nova Scotia	3.0%	16.0%
Prince Edward Island	3.5%	16.0%
New Brunswick	2.5%	145.0%
Ontario	3.5%	11.5%
Manitoba	nil	12.0%
Saskatchewan	2.0%	12.0%
British Columbia	2.0%	12.0%
Yukon	4.0%	12.0%
Northwest Territories	4.0%	11.5%
Nunavut	4.0%	12.0%

Most corporations can file their returns electronically and many are required to do this. Many Canadian corporations may choose their tax year; this is accomplished by choosing a year end on their first Form T2. The tax return is due no later than 6 months after the end of the tax year. If the return is due on a weekend or holiday it is considered timely if it is filed the next business day. Tax is due with the return; certain corporations are required to pay in installments throughout the year.

There are various types of Canadian corporations such as:

- Canadian-controlled Private Corporation (CCPC);
- Other Private Corporation;
- Public Corporation;
- Nonprofit Corporation.

2. VAT

Canada has various different sales taxes that are applicable to the purchase of most goods and services. The Goods and Services tax (GST) is applied to most purchases. This is a Federal level sales tax and is 5%. Certain provinces also charge a Provincial sales tax (PST) and the rates vary by province. Lastly, in several provinces (New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island) the GST and the PST are combined into the Harmonized Sales tax (HST). There is no standard GST rebate program for non residents and tourists although there are various other non comprehensive refunds available.

2.1 Declaration and Payment

- GST, PST and HST are paid at the time of purchase.
- Rates are as follows:

GST/HST/PST Rates 2019

Province	(%)
Alberta	5
British Columbia	12
Manitoba	12
New Brunswick	15
Newfoundland and Labrador	15
Northwest Territories	5
Nova Scotia	15
Nunavut	5
Ontario	13
Quebec	14.975
Prince Edward Island	15
Saskatchewan	11
Yukon	5

3. Others taxes

3.1 Taxation of estates

Canada does not impose an inheritance tax. When a taxpayer dies, a representative must file a deceased tax return and pay any tax on the estate. Capital assets owned by the estate are treated as if they are sold for Fair market value immediately before the death. The estate pays tax (on 50% of taxable gains). As a result of this, the remaining inheritance is not taxable to the recipient. Certain exceptions to this taxation are possible when the estate is inherited by the deceased's spouse. There are also certain exclusions from the inheritance tax that is levied on the estate. If the taxpayer died between 1st January and 31st October the return and tax are due on 30th April of the following year. If they died between 1st November and 31st December, they are due six months after the date of death.

3.2 Social Security Contributions

Employers must withhold Canada Pension Plan (CPP) contributions for all employees over the age of 18. Employees in Quebec pay into the Quebec Pension Plan instead. These payments are sent to the Canada Revenue Agency. Canadians are also required to pay into Employment Insurance. These contributions are also withheld from one's pay. If a taxpayer is to become unemployed, they may be entitled to EI Benefits.

CPP Rates are as follows:

CPP Contribution Rates						
Year	Max. annual pensionable earnings	Basic exemption	Maximum contributory earnings	Employee contribution rate (%)	Max. annual employee contribution	Max. annual self-employed contribution
2019	USD57,400	USD3,500	USD53,900	5.10	USD2,748.90	USD5,497.80
2018	USD55,9000	USD3,500	USD51,800	4.95	USD2,593.80	USD5,187.600
2017	USD55,300	USD3,500	USD51,800	0.95	USD2,564.10	USD5,128.200

EI Rates are as follows:

Federal EI Premiums and Maximums				
Year	Max Annual Earnings	Rate	Max Annual EE Premium	Max annual ER premium
2019	USD53,100	1.62	USD860.22	USD1,204.31
2018	USD51,700	1.66	USD858.22	USD1,201.51
2017	USD51,300	1.63	USD836.19	USD1,170.67

Quebec EI Premiums and Maximums				
Year	Max Annual Earnings	Rate	Max Annual EE Premium	Max annual ER premium
2019	USD53,100	1.25	USD663.75	USD929.25
2018	USD51,700	1.30	USD672.10	USD940.94
2017	USD51,300	1.27	USD651.51	USD912.11

3.3. US treaty

The Canada – United States tax treaty was originally signed on 26 September 1980. It has been amended several times, the most recent of which was in 2009. The treaty is an effort to reduce tax on residents of either country who have income from the other. This is generally achieved through tax credits.

Anthony Barr

Contact

THE HENRY LEVY GROUP
5940 College Avenue
Oakland, CA 94618
www.hlgcpa.com
Tel. +1 510 652 1000
Fax +1 510 225 3911
beth@hlgcpa.com
Beth ATTEBERY