



**FAZZARI+PARTNERS** LLP  
CHARTERED PROFESSIONAL ACCOUNTANTS



# Foreign Companies Doing Business in Canada - Ontario

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# 01 Executive Summary

Canada is a country of opportunity. As one of the most socially, politically, and economically developed countries in the world, the Canadian infrastructure and commercial landscape provide a stability that in many ways resembles that of its southern neighbor, the United States of America.

The United States and Canada share a time tested economic relationship built along a shared border that has and continues to provide opportunity for

commercial and cultural growth. Canadian enterprises and Canada as a country welcome new opportunities and investment from our global community; a community growing ever more deeply connected.

Yet, every relationship must be founded in knowledge. In this brochure we explore the political and commercial culture that drives Canadian business and, in so doing, aim to provide insight into how international organizations can invest successfully in Canada.





# 02 Socioeconomics

Although Canada is the second-largest country in the world, it is only the world's 38th most populous. As of August 2021 the population of Canada sits at approximately 38.3 million with the majority of the population located in Ontario and Quebec. Population distribution (by province) runs as follows:

- Ontario — 38.8%
- Quebec — 22.5%
- British Columbia — 13.6%
- Alberta — 11.6%
- Remaining Provinces and Territories — 13.5%

One of Canada's significant qualities is its dedication to the social support of its citizens through sophisticated, institutionalized systems designed to provide an accessible socioeconomic safety net for all Canadians. This includes a developed system of welfare, retirement, and unemployment programs built to provide aid and support to disadvantaged citizens, as well as universal, publicly funded healthcare for medical necessities.

Where a medical service is considered to be medically necessary, the costs for that service are in part subsidized by the Canadian federal government. Where a service is not listed as medically necessary, those services and procedures may be purchased privately; although, it is important to note that private insurance and care is banned for any listed necessary service. While this system is in place to prevent the emergence of a two-tiered healthcare system, one notable exception exists where the governmental ban on private care would create unreasonable medical delays for patients (as established in the 2005 Supreme Court of Canada ruling in *Chaouli v. Quebec*).

Together, this system means that health and social services commonly account for the greatest majority of any province's annual budget, even taking into account that, as a federation, many of each province's administered programs are supported in part federally. Of that amount, the lion's share is often consumed by the healthcare system.



# 03 Taxation



## Corporate Taxation

Current tax legislation provides for a 15% Federal Corporate Income Tax rate on active business income earned by private corporations, such as a subsidiary of a foreign corporation. Corporations that are privately controlled by Canadian residents are eligible for a reduced Federal Corporate Income Tax rate of 9% on the first \$500,000 of net active business income.

Provincial Corporate Income Tax rates vary from 8% to 16% depending on the jurisdiction. Similar to the Federal model, each Province provides for a reduced Corporate Income Tax rate up to 4% for entities that are Canadian controlled.

## Scientific Research and Development (“SRED”)

Canadian controlled private corporations (“CCPC”) can earn up to 35% in refundable Federal Investment Tax Credits for qualified SRED expenditures. Other private corporations can earn up to 15% non-refundable Federal Investment Tax Credits for qualified SRED expenditures. Provincial credits are also available and vary up to 37.5%.

## Manufacturing and Processing

The Ontario provincial government provides some benefit to Ontario resident corporations engaged in manufacturing and processing. The Provincial Corporate Income Tax rate is reduced by 1.5% for corporations with eligible expenditure and activities.

## Canadian Branch Tax of a Foreign Corporation

Foreign corporations often organize branches within Canada to facilitate business. Business profits earned in Canada by a branch will be subject to normal Federal and Provincial Corporate Income Taxes. Combined Federal and Provincial Corporate Income Tax rates vary from 26.5% to 31%. Furthermore, a Federal Branch Tax of 25% is applied on profits not

reinvested in Canada. A Tax Treaty may provide for a reduced rate or exemption threshold for the Federal Branch Tax.

## Sales Tax

Sales Tax apply at the Federal and Provincial levels with rates varying across Canada. The Federal Goods and Services Tax (“GST”) rate is currently 5%. Provincial Sales Tax (“PST”) rates vary from 0% to 10% providing for overall Sales Tax rate between 5% and 15% nationwide. Some provinces have harmonized their PST systems with the Federal system (known as “HST” or Harmonized Sales Tax).

## Sales Tax on Digital Goods & Services

As of July 1, 2021, new GST/HST rules have come into effect which apply to any sellers of digital products or services, distribution platform operators and short-term accommodation platform operators. These new rules will apply to resident and non-resident businesses both big and small. The new rules require sellers with sales to Canadian consumers in excess of \$30,000 CAD over a 12-month period to register and collect GST/HST. Provinces that have not harmonized their PST systems with the Federal system have also introduced similar legislation.

## Transfer Pricing

Entities within a multinational group that buy and sell goods with each other are required to ensure appropriate profits are reported in Canada. The Canada Revenue Agency, the governing taxation authority, scrutinizes these transactions to ensure they occur under arm’s length terms and conditions. Penalties are severe for non-compliance in this area.



# 04

## Metropolitan Facts

### Ontario

Ontario is Canada's most populous province with 38.8% of Canada's population (at approximately 15 million people). Ontario is home to Ottawa, the Canadian capital, as well as Toronto and the Greater Toronto Area (GTA), Canada's largest metropolitan region with a population of approximately 6.3 million people. Within and around the GTA, significant centers of industry include Mississauga with a population of over 700,000, Brampton with a population of approximately 600,000, and Hamilton with a population of over 700,000. One notable up-and-coming city within Ontario is Vaughan, with a population of over 400,000.

Ontario has a thriving economy, generating 38.6% of Canada's national GDP and is home to approximately 50% of all employees in tech, financial services, and other knowledge-intensive industries. Primary industries within Ontario include agriculture, forestry, mining, and manufacturing, including the automotive sector.

### Ottawa

Ottawa is the nation's capital with a population of approximately 1.4 million people. Ottawa is a hub of technological and academic growth and innovation, with over \$4.7 billion invested in Ottawa's technology sector over the last 10 years. Notable is that Ottawa is home to nearly 90% of Canada's telecom research and development.

Ottawa is also Canada's most educated city, containing the highest concentration of employees holding a post-secondary degree, including the majority of Canada's scientists and engineers. Empowering this attribute, Ottawa has facilitated city-wide access to high-speed connectivity across all academic facilities and public works. Ottawa is also home to more than 40 academic research laboratories; all while being listed as one of the least congested, most affordable, and fastest growing cities in North America.

### Toronto + Greater Toronto Area

Toronto and the Greater Toronto Area (GTA) is Canada's largest metropolitan center and the fourth largest city in North America, with more than a quarter of Canada's population. When it comes to international commerce, Toronto is an important global economic hub. One significant attribute of Toronto is its accessibility to the United States, with less-than 90-minute flights between Toronto and some of the United States' largest cities.

Within Canada Toronto is a significant economic power, contributing 22.4% of the national GDP. Home to over 200,000 businesses and exporting more than \$70 billion in goods and services, the GTA produces more than half of Canada's manufactured goods. Five of Canada's largest banks are headquartered in Toronto, which is also home to the Toronto Stock Exchange (TSX), Canada's primary stock exchange.

# 05

## Mergers and Acquisitions & Private Equity

In Canada, private equity deal flow bears a great deal of similarity to that in the United States and Europe.

The majority of deals done amount to less than \$500 million with the majority under \$100 million in value.

The exception to this similarity is the number of deals done annually, with Canadian organizations completing (less than/more than) their neighbors to the south or counterparts in Europe.

Outbound private equity in Canada typically runs in the range of 40-50%. Domestic deals typically run between 30% and 35%. Inbound deals sit at approximately 25%.



# 06

## Conclusion

Canada is home to a thriving economy founded in businesses ranging from large corporations to small and medium-sized enterprises powered by a diverse, multinational population.

As the second-largest country in the world with an abundance of natural resources and human capital coupled with strong international economic ties both to its neighbours in the United States and globally, there are few places in the world better positioned to help established and fledgling businesses succeed than Canada.

While Canada does have some of the highest tax rates in the world, any economic deterrent is more than balanced by the numerous social benefits those taxes provide. From healthcare to transportation infrastructure, to social services, to an education system that fuels Canada's significant knowledge assets, all of which are building blocks an economy which is among the wealthiest and most stable in the world.

All in all, Canada is a country of great opportunity — and one well worth the investment by business leaders globally.




# Contact Us

## Fazzari + Partners LLP

Fazzari + Partners LLP is a member of MGI North America, part of MGI Worldwide, a top-20 ranked international audit, tax, accounting and consulting network with some 5,200 professionals in over 260 locations around the world.

Based in Vaughan, Ontario in the east-central part of the country, the six-partner firm was established in 1988, and specialises in taxation, accounting, forensic accounting and more, including providing support for smaller accounting companies and individuals. Fazzari + Partners LLP serve a client-base in Canada, the US and Europe and pride themselves in their in-depth knowledge of clients' requirements.



 Fazzari + Partners LLP  
3300 Highway #7  
Suite 901  
Vaughan  
Ontario  
Canada L4K 4M3

 +1 905 738 5758  
 +1 905 660 7228  
 [info@fazzaripartners.com](mailto:info@fazzaripartners.com)  
 [www.fazzaripartners.com](http://www.fazzaripartners.com)



### Frank Fazzari

MGI Worldwide Key Contact and  
Managing Partner at Fazzari + Partners LLP

 +1 905 695 9830

 [frank@fazzaripartners.com](mailto:frank@fazzaripartners.com)

Frank is the Managing Partner of Fazzari + Partners LLP, Chartered Professional Accountants and he oversees the Firm's Forensic Accounting department. With almost 30 years of experience, Frank gained his designation in 1988, obtained his Certified Fraud Examiner (CFE) designation in 2011, and was awarded Fellow in 2013, which is granted to CPA's/CA's who have rendered exceptional achievements and service.

Over his extensive career, Frank has developed a wealth of experience working with various clients in various industries and businesses including real estate, construction, manufacturing, distribution and many others. Most of his time has been assisting entrepreneurs with their private enterprises but he has spent much of his career also assisting charitable organizations. Frank is a trusted and relied upon advisor to many private and non-for-profit enterprises.

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