DOING BUSINESS IN CANADA

2014

MAZARS

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This document is intended for foreign businesses interested in doing business in Canada. Even though it briefly describes the business environment, certain legal aspects and the main tax measures to be taken into consideration when deciding to set up and operate a business in Canada, this document mainly focuses on the province of Quebec.

CANADA

Area and Population

Canada is the second largest country in the world with nearly 10 million square kilometres (approximately 5 500 kilometres East to West and about 4 600 kilometres North to South). Its population is over 33 million, 90 % of which live less than 200 kilometres from the U.S. border. Nearly half the population is concentrated within six large urbanized areas: Toronto, Montreal, Vancouver, Ottawa-Gatineau, Calgary and Edmonton. Canada is multicultural and its inhabitants enjoy a relatively high standard of living.

Canada has an elaborate communications system and a complete network of road, rail, maritime and air transport allowing for the delivery of goods and services over its entire territory.

Official Languages

Canada has two official languages: English and French. English is predominant everywhere except in Quebec and certain other regions where French is the language most often spoken.

The federal government offers all of its services in both languages. As for the provinces they sometimes offer certain services in only one of the two official languages. Quebec has certain laws that promote the use of French, for example in commercial signs, product identification and education.

Government and Law

Canada is a confederation where the powers are shared between the federal government and the governments of the ten provinces and three territories. The British parliamentary system is used in both levels of government and each of these levels has the power to pass laws in their respective fields of jurisdiction, namely tax.

From the legal standpoint, the common law is used in all provinces except in the province of Quebec, where the Civil Code, inspired by the Napoleonic Code, is used in matters of civil law. There are courts at the federal and provincial levels. Due to its strong institutions, Canada benefits from great credibility both on the north-American and global scale.

Economy

Canada benefits from a free market economy, except in the case of certain government controlled corporations, generally called "Crown corporations", present in the fields of energy production and transport, telecommunications and mail. Canada is prosperous; it is based on market economy and is considered the 14th largest economy in the world.

The Canadian economy is strong; it is fuelled both by SMEs and numerous multinational corporations. It has expanded namely as a result of the production and export of agricultural goods and natural resources such as potash, uranium, aluminum, cobalt, petroleum and forest produce. Its main trading partner is the United States.

Between 1990 and 2007, Canada had a period of strong economic growth during which the federal government showed several years of budgetary surplus. The 2008-2009 financial crisis halted this momentum due to the massive investment of public funds to stimulate the economy. In spite of this, the economic record remained positive and the Canadian banking system proves to be one of the most reliable in the world. Thanks to its natural resources, its modern infrastructures, its qualified labour as well as its stable political and economic system, Canada benefits from healthy economic prospects.

The cost of living in Canada is relatively low when compared to other developed countries. For example, the cost of energy, real estate, food and gas is significantly lower than it is in Europe.

Incentives and restrictions for foreign investment

Foreign investment is generally encouraged as long as it contributes to the economic growth and the creation of jobs in Canada. The federal and provincial governments have set in place an array of programs and tax incentives aimed namely at encouraging investments in certain regions or industries. These programs can also be beneficial to foreign investors who have subsidiaries or branch offices in Canada. There are no controls on foreign currencies, capital repatriation or income of non-Canadians.

The Bank of Canada is the central bank of Canada; it is the one that sets the main interest rates. As for the Canadian dollar exchange rate, it is set by the market.

The province of Quebec has a very ambitious program aimed at the integrated and sustainable development of its territory, namely in the mining sector. Within the context of the "Northern Plan Fund" program, the Quebec government announced an investment of 63 millions of dollars during 2014-2015, namely in transportation infrastructures. Quebec offers foreign investors a very beneficial business environment: a stable and diversified economy, a significant pool of qualified labour and one of the lowest corporate tax rates in North America.

Non-Canadians who wish to start or purchase a business in Canada may have to notify the government. The Investment Canada Act aims at limiting foreign investment and property in certain sectors such as financial services, communications, transport, media and culture. Generally, this Act does not impose constraints on investments that do not exceed a certain threshold. A higher threshold, set each year, applies to investors who live in countries members of the World Trade Organization (WTO) or North American Free Trade (NAFTA)

Foreign investors would be well advised to know both the various federal and provincial legislations that govern business activities in general and those that govern the industries or specific activity sectors in the provinces where they wish to do business, such as the environmental protection laws, the labour laws, the competition acts, the laws on intellectual property, the consumer protections laws and postings acts. They should also find out about the various regulations, fees, rights and taxes that may apply depending on the government of the municipality where they decided to set up their business.

International Trade

Free trade agreements (FTA) have been concluded with more than 10 countries already, namely Chile, Columbia, Costa Rica, Honduras, Israel, Jordan, Panama and Peru. These agreements benefit all parties given as they procure competitive benefits in a vast array of sectors. Negotiations are underway between Canada and more than 60 other countries in order to conclude similar FTAs. In addition to these agreements, Canada is also a member of the Asia-Pacific Economic Cooperation (APEC) whose goal it is to promote economic exchanges in the Asia-Pacific region. In 2013, Canada signed a FTA with the European Union (EU) following negotiations started in 2009.

Import regulations are enforced by the Canada Border Services Agency, a key government organisation in this matter that is under federal jurisdiction.

Canada offers an open economy with few import restrictions. Most products imported into Canada are subject to customs duties and the goods and services tax (GST) or other provincial sales tax. Customs rates vary depending on the nature of the goods and their country of origin. Canada, the United States and Mexico co-signed the NAFTA, an agreement under which most of the customs duties have been eliminated between these countries.

Competition

Although Canada has opted for a market economy, there are national laws in order to protect and promote competition within the country. Competition Bureau Canada is the federal agency responsible for governing and applying these laws.

The federal "Competition Act" prescribes the practices that regulate unfair competition and monopoly in all economic sectors and competition levels across Canada, with a few exceptions. Among others, provisions concerning advertising, trade practices and telemarketing are set in place in order to avoid any misleading actions. Furthermore, the "Competition Act" contains provisions in order to avoid abuse that could lead to a dominant market position during mergers or types of collaborations between market rivals.

These laws concerning competition ensure consumers have a choice of products at competitive prices. They allow SMEs to find a reasonable place within the national economy and increase the chances of Canadian participation in the international markets. The objective of the "Competition Act" is also to stimulate the efficiency and

adaptability of the Canadian economy while taking into account the role of foreign competition in Canada.

In addition to protecting companies against unfair competition, Canada has consumer protection laws to protect consumers from false or deceitful declarations as well as deceptive packaging and labels related to the sale of good and services.

Finance

The Canadian financial market is well developed and reliable. It is characterised by strong government regulations and safe practices when it comes to lending. This has certainly played a role in allowing Canadian banks to get through the financial crisis with more ease.

The main sources of capital are the Canadian chartered banks and other financial institutions, stock markets and government agencies.

Canada has three specialized stock markets: the Toronto Stock Exchange (TSX) that lists securities and stocks of large Canadian and foreign public corporations, the Montreal Exchange that lists solely derivative instruments, and the TSX Venture Exchange that lists stocks of emerging Canadian public start-ups.

The federal and provincial governments, directly or via their institutions, can also be a significant source of funding, either by financing the corporations themselves, or by offering loan guarantees.

Workers

Work is usually governed by provincial laws. Each province determines the labour laws applicable on its territory such as the minimum wage, work schedules, statutory holidays, vacation pays, pay equity and the establishment of workers' unions.

Social Security

Canada essentially has two public pension plans: the Old Age Security Program (available to all) and the Canada Pension Plan (CPP) (available to workers who contributed to the plan during their working life) or the Quebec Pension Plan (QPP) (for workers residing in Quebec). The law also offers Canadians who earned an eligible income (essentially an employment or business income) the option to contribute to a registered retirement savings plan (RRSP).

The federal government also administers the employment insurance program, which provides benefits to workers who are involuntarily and temporarily without employment.

The provinces manage their respective occupational health and safety programs that grant benefits to workers and their dependents in the event an injury or death occurs within the context of their job.

Canadians benefit from a public healthcare system, administered by the provinces. Healthcare services not covered or covered in part by the public system (dental care, vision care and drugs) are often covered by the employer's insurance.

Immigration: Work permits

People who are not Canadian citizens or permanent residents of Canada require a work permit to work in Canada. Work permits allow individuals to occupy a specific job for a specific employer. These temporary work authorisations are generally valid for an initial period of six months to one year, but they can be extended several years beyond their initial date.

LEGAL ENTITIES

Any person wanting to do business in Canada can chose the legal form of doing business that best suits his or her needs.

To determine which legal form is most appropriate, investors must take several factors into consideration, such as the nature of the activities, asset protection, access to various incentive and funding programs and, of course, taxation.

Here is a summary of the main features of the most frequent legal forms of doing business:

Corporations

A corporation is the most frequent form of legal organization. From a legal standpoint, a corporation is an entity distinct from its stockholders given as it has its own legal personality. A corporation allows stockholders' responsibilities to be limited to the amount of their investment.

Corporations can be formed in accordance to the federal law (Canada Business Corporations Act) or a provincial law (in Quebec, the Quebec Business Corporations Act).

The provisions contained in the corporate laws of each of these jurisdictions are similar, but the differences could be important and require special attention. Some jurisdictions require the submission of an annual report accompanied by nominal fees.

Federal and provincial corporate laws usually require the presence of Canadian administrators and sometimes they must even make up the majority of the board of directors. Some provincial laws, including those in Quebec, are an exception to this rule. The members of the board can be non-Canadian residents as long as they abide by the requirements of the Canadian legislation in terms of immigration.

The provinces of Alberta, British Columbia and Nova Scotia propose a particular form of incorporation: the Unlimited Liability Corporation (ULC). The particularity of ULCs, is that they provide no limit to the stockholders' responsibilities. This legal entity is sometimes used by investors from the United States due to the advantages it provides for U.S. tax purposes.

When a foreign corporation wants to do business in Canada, it can do so by creating a distinct Canadian subsidiary or branch in Canada. The Canadian subsidiary simplifies the administrative process and generally limits the responsibility of the parent company towards its investment. In order to set up a branch, the foreign company

must register in the provinces where it will be carrying on its activities. Through the application of foreign tax rules, the Canadian branch losses incurred during its first years can generally be deducted in the foreign corporation's home country.

Generally, a Canadian corporation is taxable in Canada on its world-wide income, regardless of its source. A Canadian corporation's taxable income is first and foremost taxed at the corporate level and then at the personal level when the dividends are paid to individual stockholders.

To compensate for the double taxation, the Canadian tax system grants individuals residing in Canada a tax credit for dividends. As for Canadian corporate stockholders, they benefit from a deduction equal to the amount of the dividends received in the calculation of their taxes. Dividends are distributed free of income tax when they are paid from one Canadian corporation to another. However, a special temporary tax is payable by a Canadian corporate stockholder on the dividends received from "non-connected" Canadian corporations. This special tax is reimbursable when the time comes for the corporate stockholder to pay a dividend.

The Canadian tax system grants many benefits to a "Canadian-controlled private corporation" and, sometimes, to its stockholders or employees. However, some of these benefits are reduced based on the corporation's size or profitability level. The provisions that have to do with scientific research and experimental development (SR&ED) tax credits as well as the small business deduction (SBD) are examples of this.

Partnerships

From a legal standpoint, a partnership is a relationship between two or several persons (individuals, corporations or trusts), hereafter called "partners", who agree to do business in order to generate a common profit. Partnerships don't have legal personality.

Generally, there are two types of partnerships: "general partnerships", in which the partners' responsibility is unlimited, and "limited partnerships", in which the partners' responsibility is limited. Partnerships are governed by provincial laws and, consequently, certain specifics can vary from one province to the next.

Some provinces also offer the option of limited liability partnerships or LLP, which is generally used by professional services firms. This "hybrid" partnership limits a partner's responsibility regarding the professional errors of another partner, but remains unlimited regarding all other aspects.

In general partnerships, each partner is jointly and severally liable with the other partners regarding the partnership's debts, up to the limit of his/her own assets.

Limited partnerships are made up of two types of partners: the general partner, whose responsibility is unlimited and the limited partner(s), whose responsibility is limited to the amount invested in the limited partnership. Limited partnerships are interesting because they combine the tax benefits of general partnerships and the limited responsibility offered by corporations.

From a tax standpoint, partnerships are treated as flow through entities. A partner's proportionate share of the income, loss and other fiscal elements of the partnership are added to the said partner's income, whether or not it has been distributed. There is normally no withholding tax on business income, whether or not the partner is a Canadian resident. Non-resident partners must file a federal income tax return and, if applicable, a provincial one.

Joint ventures

Joint ventures are similar to general partnerships; they involve putting together the resources of two or more people in order to achieve a common goal, without having to create a legal entity.

However, joint ventures differ from general partnerships by its temporary nature. In fact, a joint venture normally ceases to exist upon the completion of its object or when its term expires. Joint ventures are not recognised under tax laws. Each joint venture partner is rather taxed on his/her share of the income and expenses as if the said incomes and expenses had been earned or incurred directly by him.

Trusts

A trust is an appropriated patrimony by which the settlor entrusts his assets to a person (the "trustee") who must manage them for the benefit of other people (the "beneficiaries"). There are two types of trusts: Trusts between living persons (inter vivos), created by a deed of trust during the settlor's lifetime, and testamentary trusts, created by the will of a deceased person. Trusts are governed by provincial laws.

Trusts have a legal personality distinct from that of its beneficiaries. The fiduciary and the beneficiaries are not usually personally responsible for the trust's debts. A trust can operate a business.

Generally, the trust's income or capital gains can be taxed directly in the trust or at the beneficiaries' level, if the trust distributes its income or capital gains among its beneficiaries. Testamentary trusts benefit from a more advantageous tax treatment than inter vivos trusts.

Trusts must pay taxes on unrealized capital gains every 21 years, saving exception.

Sole Proprietorships

It is a non-incorporated business, run by an individual, for his own account. The modalities and set-up fees are minimal. The income derived from the business (or the loss incurred) is added to the individual's other income and the overall income is taxed at the tax rates applicable to individuals. The individual's responsibility regarding the business' debts is unlimited.

Other legal forms of doing business: franchising and licensing

Foreign investors who wish to do business in Canada can also do so under other more contractual forms, for example, franchising and licensing.

Franchising is an agreement between a franchiser who grants the franchisee the right to use an operating structure, intellectual property or a trademark. In Quebec, franchises are governed by the general contract law.

Licensing is when the licensor holding intellectual property rights grants the licensee the right to use his intellectual property rights in a determinable fashion.

Operating a business as a franchise or licence can be done in either previously described legal forms of doing business.

TAXATION

The Canadian tax system provides for the collection of various taxes such as the income tax, sales taxes, payroll tax and other duties and taxes.

Income Tax

The federal and provincial governments collect tax on income. The federal government collects tax on the world-wide income of persons (individuals, companies and trusts) who are residents of Canada and, subject to applicable tax treaties, Canadian-source income of non-residents. Generally, provinces collect tax on the income of persons residing in the province on December 31st and on the income of non-residents persons who operate a business in the province. Quebec also collects tax on the income of a non-resident when it results from a gain realised at the disposal of certain taxable Quebec property or from employment in Quebec.

Taxpayers must normally file a yearly income tax return. Tax is paid through deductions at source, tax instalments and payment of the balance due at the specific times provided by law.

The amount of taxable capital gains corresponds to 50 % of realised capital gains. The same 50% rule applies on capital losses. Capital losses are deductible against capital gains. Capital losses not used one year can be carried back to the past three years or carried over indefinitely into the future.

Operating losses apply against all sources of income. Unused operating losses can be carried back to the past three years or carried over 20 years into the future.

Canada has concluded tax treaties with several countries allowing, namely, to resolve issues of dual residence and to avoid double taxation.

Non-residents are first subject to pay income tax if they earn employment income in Canada, carry on business in Canada or realise a gain upon disposal of certain Canadian property. The existence of a business is a question of fact. The simple solicitation of orders in Canada, be it via a nominee or representative, can be considered as carrying on business in Canada. However, tax relief may be available in accordance to a tax treaty when the non-resident has no permanent establishment in Canada and files an income tax return in order to claim the benefit of the tax treaty.

Non-resident companies that carry on business in Canada through a permanent establishment are subject to income tax on their business income earned in Canada.

Non-resident companies are also subject to “branch tax”, which is imposed at a rate

of 25 % on the after tax benefits not reinvested in Canada, subject to a reduced rate under an applicable tax treaty.

Certain amounts for services rendered in Canada are subject to a 15 % withholding tax (an additional 9 % applies in Quebec). This withholding tax constitutes an advanced payment on the final tax that may be due. This withholding tax can be reduced or eliminated by a tax treaty.

Non-Canadian residents, including partnerships with at least one non-resident partner, are also subject to a 25 % withholding tax on certain Canadian-source income, including dividends, interests, rents, royalties as well as on certain management or technical services fees and other similar payments. In this case, it is a final tax. The redemption of shares by a Canadian subsidiary, normally results in a deemed dividend, also subject to non-resident withholding tax. It will be the case when the amount paid exceeds the capital declared on these shares. This 25 % rate can be reduced or eliminated in accordance to a tax treaty.

The deductibility of interest expenses is limited to a certain amount when the thin capitalization rules apply.

Canadian legislation regarding transfer pricing generally abides by the principles of the Organisation for Economic Co-operation and Development (OECD).Transactions between non-arm's length persons, including cross border transactions, must be reflected at the fair market value, as if they had been entered into between arm's length persons. A taxpayer must prove he made a reasonable effort to maintain appropriate documentation to support the transfer prices used.

When a non-resident company temporarily assigns an employee to Canada, Canadian tax considerations vary depending on whether or not the employee becomes a Canadian resident. A Canadian resident is subject to pay income tax on his world-wide income. A non-resident is taxed in Canada on the income attributable to his employment in Canada.

The job is considered to be exercised in Canada if the services related to the said job physically take place there; the employer's place of residence generally has no incidence on this determination. In certain cases, namely during short secondments, non-residents may be exempted from paying income tax in Canada.

Sales Taxes

The federal and provincial governments collect mostly sales taxes. The goods and services tax (GST) is a federal value-added tax. The GST system is made up of three supply categories: taxable supplies (most tangible and intangible goods as well as services), exempt supplies (financial services and health services among others) and zero-rated supplies (exports and basic food products for example).

Generally, the GST works as follows. A company that provides goods or services in Canada, whether they are taxable or zero-rated, must register with the tax authorities for the purposes of the GST, withhold a 5 % GST on its taxable supplies and remit it to the government. Unless its activities consist in making exempt supplies, the company is normally entitled to a refund of the GST it pays on supplies it acquires in the course of commercial activities (input tax credit).

The provinces of Ontario, Nova Scotia, New Brunswick, Newfoundland and Labrador as well as Prince Edward Island (called the Participating Provinces) have harmonised their provincial sales tax (PST) system with that of the GST, where the Harmonized Sales Tax (HST) applies instead of the GST. The HST is made up of the GST of 5 % and a provincial component varying from 8 % to 10 %, according to the province.

Quebec also imposes its own value-added tax on goods and services (like the GST): the Québec Sales Tax (QST) rate is 9.975 %. The QST base is similar to that of the GST.

British Columbia, Saskatchewan and Manitoba impose a retail sales tax, which functions differently than the GST; it is payable by the end-user and is aimed at most goods and certain types de services. The rates vary between 5 % and 9 %. Alberta does not collect a sales tax.

Please refer to section 7 (p. 33) where we have provided a chart that summarises the sales tax rates of each of the provinces.

Employment Insurance

The federal government collects contributions for employment insurance (EI). This plan is financed by both employees and employers; employers pay 1.4 times the contribution made by employees.

The province of Quebec also manages its own plan: the Québec Parental Insurance Plan (QPIP). This plan is supplementary to the federal employment insurance plan as it insures a greater number of situations. Quebec employees and employers benefit from a deduction of their contribution to the federal employment insurance plan, but must contribute to the QPIP. The QPIP is calculated in a manner similar to the EI.

The Canada and Quebec Pension Plans

Employees and employers from all provinces, except Quebec, must contribute to the Canada Pension Plan (CPP). The employee and employer contributions are equivalents and are based on the employee's salary. Quebec manages its own pension plan, the Québec Pension Plan (QPP), which is, very similar to the CPP.

Social security agreements allow foreign workers to maintain their coverage under the plan of their source country for a certain period of time.

Health insurance and financing of the health and workmen's compensation systems

Some provinces, including Quebec, require that people living in the province pay an insurance premium for drugs or healthcare.

Some provinces, including Quebec, deduct amounts at source on salaries paid to employees who live in the province in order to finance healthcare as well as workmen's compensation.

Other duties and taxes

The federal government collects customs duties and excise taxes. Some provinces and municipalities collect other duties and taxes (capital tax, resources royalties, property tax and real estate transfer tax).

In Canada, there is no estate or gift tax. However, some provinces impose certification fees when property is received by a beneficiary as a result of a will.

ACCOUNTING AND AUDIT

In Canada, the accounting principles are enacted by the Accounting Standards Board (AcSB) of the Chartered Professional Accountants of Canada (CPA Canada). These principles require that public companies and certain reporting issuers use the International Financial Reporting Standards (IFRS). Private companies can choose to use IFRS or Accounting Standards for Private Enterprises (ASPE). The IFRS and the ASPE make up the Generally Accepted Accounting Principles (GAAP).

Audit standards are enacted by CPA Canada's Auditing and Assurance Standards Board. Canada has adopted the Canadian Audit Standards (CASs).

Federal and provincial corporate laws generally require that stockholders designate an independent auditor to issue a report on a company's financial statements. Stockholders of private companies can nevertheless renounce to this privilege each year.

CORPORATE TAX RATES

INCOME TAX RATES FOR CORPORATIONS DOING BUSINESS IN QUEBEC

For fiscal year: January 1st to December 31, 2014

BUSINESS INCOME	FEDERAL	QUEBEC	TOTAL
Canadian-controlled private corporation – income eligible to SBD			
• Income $0 - $500,000 manufacturing SME[1]	11.00 %	6.85 %	17.85 %
• Income $0 - $500,000	11.00 %	8.00 %	19.00 %
• Income > $500,000	15.00 %	11.90 %	26.90 %
Canadian-controlled private corporation – Income non-eligible to SBD	15.00 %	11.90 %	26.90 %
Other private companies and public companies	15.00 %	11.90 %	26.90 %

INVESTMENT INCOME (other than the dividends)	FEDERAL	QUEBEC	TOTAL
Canadian-controlled private corporation	34.67 %	11.90 %	46.57 %
Canadian-controlled private corporation – Refundable dividend tax on hand (RDTOH)[2]	(26.67 %)	-	(26.67 %)
	8.00 % [3]	11.90 %	19.90 %
Other private companies and public companies	15.00 %	11.90 %	26.90 %

1 A company of which more than 25 % of its business (assets and labor) consist of manufacturing and processing activities can have maximum 2 % reduction from June 4, 2014 and 4 % from March 31, 2015.

2 The investment income of Canadian-controlled private corporations generally create a RDTOH account at the federal level equal to 26.67 % of the investment income. This RDTOH account is refundable to the corporation on the basis of a $1.00 refund for each $3.00 of taxable dividends paid.

3 This rate takes into account the RDTOH mechanism and the dividend tax refund.

INCOME TAX RATES FOR CORPORATIONS DOING BUSINESS IN THE OTHER PROVINCES AND TERRITORIES

For fiscal year - January 1st to December 31, 2014

PROVINCE / TERRITORY	ELEGIBLE TO SBD BELOW $500,000	ELIGIBLE TO MPP[4]	GENERAL	CCPC INVESTMENT INCOME[5]	CCPC MINUS RDTOH[6]
Newfoundland and Labrador	14.00 %	20.00 %	29.00 %	48.67 %	22.00 %
Prince Edward Island	15.50 %	31.00 %	31.00 %	50.67 %	24.00 %
Nova Scotia[7]	14.00 %	31.00 %	31.00 %	50.67 %	24.00 %
New Brunswick	15.50 %	27.00 %	27.00 %	46.67 %	20.00 %
Ontario	15.50 %	25.00 %	26.50 %	46.17 %	19.50 %
Manitoba[8]	11.00 %	27.00 %	27.00 %	46.67 %	20.00 %
Saskatchewan	13.00 %	25.00 %	27.00 %	46.67 %	20.00 %
Alberta	14.00 %	25.00 %	25.00 %	44.67 %	18.00 %
British Columbia	13.50 %	26.00 %	26.00 %	45.67 %	19.00 %
Yukon	14.00 %	17.50 %	30.00 %	49.67 %	23.00 %
Northwest Territories	15.00 %	26.50 %	26.50 %	46.17 %	19.50 %
Nunavut	15.00 %	27.00 %	27.00 %	46.67 %	20.00 %

4 MPP: Manufacturing and processing profits.

5 Tax rate for investment income (other than the dividends) earned by a private company under Canadian control. For other companies, investment income is taxed at the general rates.

6 This rate takes into account the RDTOH mechanism and the dividend tax refund.

7 The maximum eligible amount for the purposes of the SBD is $350,000 for Nova Scotia.

8 The maximum eligible amount for the purposes of the SBD is $425,000 for Manitoba.

CORPORATE TAX CREDITS

The federal and Quebec governments grant several tax credits to companies, such as the tax credit for SR&ED.

Quebec grants other corporate tax credits and this document presents those having to do with the manufacturing sector.

Tax Credit for SR&ED

Eligibility criteria :

Technological or scientific advancement, technological uncertainty and scientific content.

RATE	FEDERAL	QUEBEC
General	15.00 %	14.00 % [1]
Canadian-controlled private corporations	35.00 % [2]	30.00 % [3]
ELIGIBLE EXPENSES (UNDER CONDITIONS)	**FEDERAL**	**QUEBEC**
Current expenses		
• Direct salaries	x	x
• Contract payments	x [4]	x [5]
• Materials consumed	x	
• Materials transformed	x	

Refund and taxation: the tax credit for SR&ED is fully refundable in Quebec. At the federal level, it is refundable under certain conditions. The Quebec tax credit and the federal tax credit are taxable at the two levels of government.

1 In accordance with the provisions of the Québec Budget tabled on June 4, 2014, the rate of the tax credit was reduced from 17.5 % to 14 % for eligible expenditures incurred after June 4, 2014.

2 This rate is subject to a cap of $3 million which gradually decreases when the taxable income of the previous year exceeds $500,000 or when the taxable capital employed in Canada for the previous year exceeds $10 million (including associated companies).

3 This rate is subject to a maximum of $3 million that gradually decreases when the assets of the company and its affiliated companies exceed $50 million. CCPC can benefit from a rate of up to 37.5 % depending on the amount of their assets. This rate was also reduced to 30 % in accordance with the Québec Budget tabled on June 4, 2014.

4 Contract payments are limited to 80 % of incurred expenses.

5 Contract payments are limited to 50 % of incurred expenses.

Quebec investment tax credit

Eligibility criteria :

An eligible company[6] that acquires computer equipment or material used mainly in manufacturing and processing prior to January 1, 2018.

Eligible expenses:

The acquisition cost of computer equipment used mainly in manufacturing and processing. It must be new and used within a reasonable delay during a period of at least 730 days, only in Quebec.

Rate:

The base rate of the tax credit is equal to 4 %[7] and can be increased by 28 %[8] so as to reach 32 %[9]. The rate increase depends on the region where the investment was made.

Refund and taxation:

The investment tax credit can, in some cases, be fully refundable. It must be accounted for in reduction of the equipment acquisition cost.

6 A company that operates a business in Quebec and has an establishment there. Note that the following companies are not entitled to the investment tax credit: an exempt company, a Crown corporation, a wholly-owned subsidiary of such a company, an aluminium manufacturing company and an oil refining company.

7 In accordance with the provisions of the Québec Budget tabled on June 4, 2014, the basic rate of the tax credit was reduced from 5 % to 4 % for eligible investments made after that date.

8 The increased rate was reduced from 35 % to 28 % in accordance with the provisions of the Québec Budget tabled on June 4, 2014 for expenditures incurred after that date.

9 The increased rate is reduced on a straight-line basis when paid-up capital of associated corporations is above $250 million, but under $500 million.

Tax credit regarding market diversification of Quebec manufacturing businesses

Eligibility criteria:

A manufacturing company considering marketing an eligible property in a market outside Quebec and that is granted a certificate attesting that this property complies with the legal standards applicable in this market. The certification must be obtained prior to January 1, 2017.

In order to be eligible to benefit from this credit, a company must meet certain conditions; among others, it must obtain a certificate from Investissement Québec certifying that 75% of its activities are eligible activities.

Eligible expenses:

Eligible certification costs incurred prior to January 1, 2016.

Rate:

The credit rate is 24 %[10].

Maximum credit:

The credit cannot exceed $36,000[11].

Refund and taxation:

The tax credit regarding market diversification of a Quebec manufacturing business is fully refundable in Quebec. It is taxable at both levels of government.

10 In accordance with the provisions of the Québec Budget tabled on June 4, 2014, the rate decreased from 30 % to 24 %.

11 In accordance with the provisions of the Québec Budget tabled on June 4, 2014, the maximum credit decreased from $45 000 to $36 000.

Tax holiday for large investment projects – C2i

Eligibility criteria:

After November 20th, 2012, a company that takes part in a large investment project in Quebec estimated at a minimum of $300 million and that meets certain requirements.

The company must obtain an initial certificate as well as yearly attestations issued by the Ministry of Finance and Economy attesting that this project is namely related to activities in the production, processing and storing of information, wholesale trade and storing sectors.

Eligible capital expenditure:

The capital expenditures incurred since the beginning of the project, in order to obtain goods and services for the implementation in Quebec of the business or of the portion of the business through which the activities resulting from the major investment project or from the production modernization of such a business or part of a business in Quebec[12].

Extent of the tax holiday:

This tax holiday applies to income tax resulting from eligible activities regarding this project and the employer's contribution to the health services fund relating to the salaries paid to employees in view of these activities.

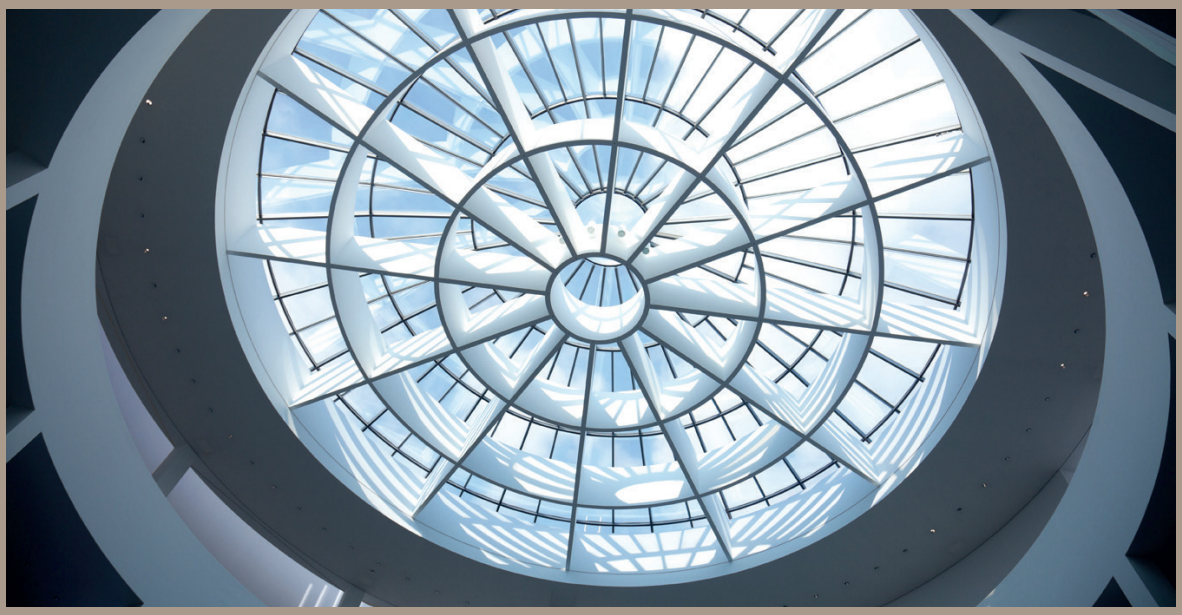
Duration of the tax holiday:

This tax holiday lasts 10 years.

Maximum tax assistance:

The total amount of the tax assistance granted cannot exceed 15 % of the total eligible capital expenditure regarding the said project.

[12] The investment expenses attributable to the realisation of the project will not include expenses related to the purchase or the use of land or those related to the acquisition of an enterprise already carrying on business in Quebec.



SALES TAXES

2014 FEDERAL AND PROVINCIAL SALES TAX RATES [1]

PROVINCE / TERRITORY	GST	HST	QST	PST	COMBINED EFFECTIVE RATE
Newfoundland and Labrador		13 %			13 %
Prince Edward Island		14 %			14 %
Nova Scotia		15 %			15 %
New Brunswick		13 %			13 %
Quebec	5 %		9.975 %		14.975 %
Ontario		13 %			13 %
Manitoba	5 %			8 %	13 %
Saskatchewan	5 %			5 %	10 %
Alberta	5 %				5 %
British Columbia	5 %			7 %[2]	12 %
Yukon	5 %				5 %
Northwest Territories	5 %				5 %
Nunavut	5 %				5 %

1 Rates prevailing on August 31, 2014

2 The rate of 7 % applies to most taxable goods; however, other rates apply for certain categories of goods, such as vehicles, boats and aircraft, the rate may increase to 12 %.

PAYROLL TAXES

CONTRIBUTIONS TO EMPLOYMENT INSURANCE, QUEBEC PENSION PLAN AND QUÉBEC PARENTAL INSURANCE PLAN FOR THE YEAR 2014

	EMPLOYMENT INSURANCE (EI) IN QUEBEC	QUEBEC PENSION PLAN (QPP)	QUEBEC PARENTAL INSURANCE PLAN (QPIP)
Maximum pensionable earnings	$48,600	$52,500	$69,000
Basic exemption	S. O.	$3,500	S. O.
Contribution rate – employee	1.53 %	5.175 %	0.559 %
Maximum contribution – employee	$743.58	$2,535.75	$385.71
Contribution rate – employer	2.142 %	5.175 %	0.782 %
Maximum contribution – employer	$1,041.01	$2,535.75	$539.58

Contribution to the health services fund

The contribution to the health services fund varies between 2.7 % and 4.26 % of the total liable earnings paid to employees. The 4.26 % rate applies if the payroll is $5 million or more. For the purpose of calculation payroll, one must consider the overall payroll of all associate companies around the world. Only the employer is required to make this contribution.

Contribution to the Commission des normes du travail (CNT) / Labour Standards Commission

The contribution to the CNT is 0.08 % of the total liable earnings paid to employees. In 2014, the maximum liable earning per employee is $69,000. Only the employer is required to make this contribution.

Contribution to the Workforce Skills Development and Recognition Fund (WSDRF)

An employer, whose payroll exceeds $1 million in Quebec per calendar year, must invest 1 % of its payroll in training. In the event an employer does not spend this amount, they must, saving all exceptions, contribute to the WSDRF an amount equivalent to the difference between 1 % of its payroll in Quebec and the actual training costs incurred. Only the employer is required to make this contribution.

Contribution to the Commission de la santé et de la sécurité du travail (CSST) / Health and Safety Commission

An employer located in Quebec must make contributions to the CSST. The contribution amount is calculated based on the total liable earnings paid to an employee. The contribution rate is decided based on the industry sector and the company's claim history. For 2014, the general rate is between 0.54 % and 18.65 % and the maximum amount of the insurable earning per employee is $69,000. Only the employer is required to make this contribution.

TAX RATES FOR INDIVIDUALS

TAX RATE ON PERSONAL INCOME – 2014

Federal

TAXABLE INCOME	RATE	RATE AFTER QUEBEC ABATEMENT
$0 - $43,953	15 %	12.53 %
$43,954 - $87,907	22 %	18.37 %
$87,908 - $136,270	26 %	21.71 %
$136,271 and over	29 %	24.22 %

Quebec

TAXABLE INCOME	RATE
$0 - $41,495	16 %
$41,496 - $82,985	20 %
$82,986 - $100,970	24 %
$100,971 and over	25.75 %

Combined and effective marginal rates

TAXABLE INCOME	COMBINED MARGINAL RATE (FEDERAL+PROVINCIAL)	COMBINED EFFECTIVE RATE (FEDERAL+PROVINCIAL)
$0 - $41,495	28.53 %	0% - 20,8%
$41,496 - $43,953	32.53 %	20,8% - 21,5%
$43,954 - $82,985	38.37 %	21,5% - 29,4%
$82,986 - $87,907	42.37 %	29,4% - 30,1%
$87,908 - $100,970	45.71 %	30,1% - 32,2%
$100,971 - $136,270	47.46 %	32,2% - 36,12%
$136,271 and over	49.97 %	36,12% and over

MAXIMUM MARGINAL TAX RATES FOR 2014

Other incomes (residents of other provinces and territories)

PROVINCE / TERRITORY	MARGINAL INCOME BRACKET ($)	MARGINAL RATE PROVINCE/ TERRITORY (%)	COMBINED MARGINAL TAX RATE (%)
Newfoundland and Labrador	68,508	13.30	42.30
Prince Edward Island	63,969	16.70	45.70
Nova Scotia	150,000	21.00	50.00
New Brunswick	127,802	17.84	46.84
Ontario[1]	220,000	20.53	49.53
Manitoba	67,000	17.40	46.40
Saskatchewan	123,692	15.00	44.00
Alberta	Flat rate	10.00	39.00
British Columbia	150,000	16.80	45.80
Yukon[1]	136,270	13.40	42.40
Northwest Territories	129,441	14.05	43.05
Nunavut	136,270	11.50	40.50

[1] These provinces/territories impose a surtax when the basic tax exceeds a minimum limit. The surtax is included in the provincial tax rate (Ontario 13.16 % before surtax and Yukon 12.76 % before surtax).

STATEMENT OF EARNINGS EXAMPLES FOR 2014

NET INCOME FOR 2014

Gross Income	$30,000.00	$50,000.00	$75,000.00	$150,000.00
Employment Insurance	($459.00)	($743.58)	($743.58)	($743.58)
Québec Pension Plan	($1,371.38)	($2,406.38)	($2,535.75)	($2,535.75)
Québec Parental Insurance Plan	($167.70)	($279.50)	($385.71)	($385.71)
Federal Tax[1]	($2,362.47)	($5,220.73)	($9,813.23)	($26,008.55)
Quebec provincial tax[2]	($2,539.00)	($6,079.20)	($11,079.20)	($29,617.83)
Net Income	**$23,100.46**	**$35,270.62**	**$50,442.53**	**$90,708.59**

EMPLOYER CONTRIBUTION FOR 2014 (EXCEPT CSST)

Gross Income	$30,000.00	$50,000.00	$75,000.00	$150,000.00
Employment Insurance	$642.60	$1,041.01	$1,041.01	$1,041.01
Quebec Pension Plan	$1,371.38	$2,406.38	$2,535.75	$2,535.75
Quebec Parental Insurance Plan	$234.60	$391.00	$539.58	$539.58
Contribution to the Health service fund (if the payroll is less than $1 million)	$810.00	$1,350.00	$2,025.00	$4,050.00
Contribution to the Commission des normes du travail	$24.00	$40.00	$55.20	$55.20
Total	**$3,082.58**	**$5,228.39**	**$6,196.54**	**$8,221.54**
Employer's Total Cost	**$33,082.58**	**$55,228.39**	**$81,196.54**	**$158,221.54**

1 Takes into account the basic personal amount ($11,138).

2 Takes into account the basic personal amount ($11,305).

For additional information,
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