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CARRYING ON BUSINESS IN CANADA:

CONSIDERATIONS FOR USA INBOUND INVESTMENT INTO CANADA

Generally USA inbound investment into Canada is accomplished by incorporation, however it is also possible to operate in Canada as a branch of a USA parent corporation.

	ISSUE	ADVANTAGE SUBSIDIARY CORPORATION	ADVANTAGE BRANCH OFFICE	APPROX EQUAL	
1.	Business registrations (eg CRA B/N, Payroll, GST/HST, WSIB, etc.)	X			
2.	Limited legal liability	X			
3.	General marketing and Canadian business operations	X			Customers and vendors are dealing with CDN corp.
4.	Ease of engaging in contracts	X			
5.	Canadian domestic income taxes			X	
6.	5% Canadian withholding taxes on dividends to subsidiary vs 5% Canadian branch taxes on profits for branch office – first $500K free for branch taxes results in potential $25K savings.		X		
7.	Overall Income Taxes assuming that Canadian domestic rate plus 5% withholding are below USA corporate rates, and assuming USA parent receive dividend as a tax free distribution for IRS purposes.	X			
8.	Use of operating losses by USA parent corporation		X		May also utilize CDN ULC corp

9.	Directors Requirement – NA for branch but require minimum of a) 1 CDN director or b) 25% CDN directors		X		
10.	Regulation 105 withholding on payments to non-resident contractors	X			
11.	Regulation 102 withholding on payments to non-resident employees	X			
12.	CRA T106 - Information Return of Non-Arm's Length Transactions with Non-Residents – not required for branches per se however similar issues re allocation of profits to Canadian branch			X	
13.	Eventual operation as a Canadian corporation can require T2057 85(1) future rollover from branch to Canadian corporation (IRS has provision for tax free rollover)	X			
14.	Gain on future sale – sale of shares usually exempt from Canadian tax	X			
15.	Interest, royalty, guarantee payments can occur with a subsidiary but only in very limited situations with a branch.	X			
16.	Head office charges – much more flexibility/latitude via use of corporation	X			