

\$200,000 of business income. In addition, a corporation cannot claim the small business deduction after it, together with companies with which it is associated, has earned \$1,000,000 of business income.

Manufacturing and Processing

This tax provision reduces the federal corporate tax rate on Canadian manufacturing and processing profits by six per cent from the general rate. Where the small business deduction is claimed, the reduction is five per cent. Profits from other sources remain subject to the normal tax rate.

Other Features

Other Levies & Credits

Corporations should be aware that there are a number of other taxes which may be levied by the different levels of government; property taxes, business taxes, licenses, and land transfer taxes. Investors should consult with the appropriate authorities for full information on the applicability, rates, and frequency of these taxes.

All employers are required to make contributions on behalf of their employees to the Canada or Quebec Pension Plan and to the Unemployment Insurance Plan. These contributions must be made at the prescribed rates by both employers and employees. Contributions to provincial workmen's compensation boards are also obligatory in most businesses. More details on these matters are provided in Chapter 7 of this publication.

Special tax credits are available for mining, petroleum, and logging operations. A limited tax credit is also available for political contributions made during the year.

Provincial Taxation

The provinces and the territories impose a corporate income tax in addition to the federal tax. Canadian federal tax rates are reduced by 10 per cent to make provision for provincial taxation.

Provincial tax is calculated by allocating taxable income to the provinces in which a corporation has a permanent establishment. The allocation is usually made on the basis of the average ratio of revenues and salaries attributable to each province to total revenues and salaries attributable to all provinces. The appropriate provincial tax rate is then applied to the resulting amount of taxable income in order to determine the provincial tax payable. Provincial tax rates vary from 8 to 16 per cent for the 1983 taxation year and certain provinces reduce these rates for Canadian-controlled private corporations eligible for the small business deduction.

Branch Tax

Foreign investors should note that additional tax is

imposed upon non-Canadian corporations carrying on business in Canada directly (branch operation) rather than through a Canadian subsidiary. This tax rate is 25 per cent and is levied in addition to the normal corporate income tax on income that can be allocated to Canada. A deduction is allowed for income taxes paid and increases in the net investment in Canadian property. The branch tax rate will be reduced where a dividend to the foreign corporation would be subject to a reduced withholding tax rate under a tax treaty.

Withholding Tax

Payments of dividends, interest and similar investment type income to residents of Canada are generally not subject to withholding taxes. In the case of a non-resident, withholding tax is applicable to payments of dividends and interest, salaries, bonuses, commissions, or other amounts for services rendered as well as payments of pension benefits and retiring allowances. The statutory rate of Canadian withholding tax to non-residents is 25 per cent. This is generally reduced to 15 per cent by Canadian tax treaties.

Management fees paid by a Canadian company to a non-resident head office are subject to withholding tax at normal rates. However, where the charge is for a specific cost or service or for indirect expenses that can reasonably be considered as having been incurred on behalf of the Canadian company, there is no withholding tax. The purpose of this tax is to prevent the repatriation of profits by means of management fees and the tax authorities will seek to disallow any excessive charges as well as imposing the withholding tax.

Non-Resident Owned Investment Corporation (NRO)

Canada permits the establishment of holding companies that are eligible for special tax treatment. All of the stocks, bonds, and debentures of such companies must be entirely owned by non-residents. A special tax rate of twenty-five per cent is levied before deducting interest. Taxable dividends paid by the corporation are subject to twenty-five per cent withholding tax unless reduced by international treaties. The payment of dividends allows for a refund of the tax paid on taxable income. A corporation must elect to be taxed as a NRO and must derive its income from the ownership of securities and may not derive more than 10 per cent of its gross income from rentals. The corporation's principal business must not be the making of loans or trading in securities.

Partnerships and Joint Ventures

A partnership is treated as a separate entity in determining net income for tax purposes. Therefore expenses and deductions such as capital cost allowance are claimed at the partnership level. This net