

What Other Taxes Might There Be?

There are additional corporate and personal taxes that may be imposed on a Canadian company with a U.S. permanent establishment and employees working in the United States. These include branch taxes, estate and gift taxes, and withholding taxes on interest, dividends and licence fees.

Social security contributions are discussed in the *Operating a Business in the United States* sheet.

Most states and many municipalities impose an income tax on companies that are incorporated in the state or "doing business" in the state. A company that is doing business in several states through branch operations or other means may be taxed by each state for that portion of the company's income that is "apportionable" to the particular state. Separate tax returns may have to be filed for each state in which an establishment is maintained (and some local governments also require separate tax returns). Similarly, certain states may impose an income tax on employees living or working in that state.

Sources of Finance for Foreign Investors

Commercial banks play a central role in the complex U.S. financial systems. But a vast array of specialized institutions — savings banks, savings and loan associations, investment banks, finance companies, factors, leasing firms, insurance companies and venture capital firms — are also important sources of financing.

Lending and capital markets in the United States are closely connected, and the banking system is maintained by a dense network of correspondent relationships. Businesses large enough to need financial services in several geographic areas commonly establish relationships with banks and institutions in several different cities. Large loans are frequently arranged by a consortium of banks located in financial centers across the country.

Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC), which guarantees bank account deposits up to US\$100 000.

Short-term Credit

Lines of credit — the most widely used form of short-term financing — can be obtained from commercial banks. They are commonly issued for one-year terms and can be renewed annually. A company can maintain several lines of credit with various banks, based on its needs and creditworthiness.

The prime rate — the variable interest rate charged by a lender to its best commercial customers for short-term, unsecured loans — often serves as a reference point for the interest rate charged on a line of credit. Alternatively, the rate may be based on some other index, such as the London Inter-Bank

Offered Rate (LIBOR), which is usually higher than the prime rate. Companies negotiating a large line of credit that do not immediately need the entire amount may have to pay a fee to maintain the unused part.

Medium- and Long-term Credit

Under normal market conditions, commercial banks provide most medium-term credit (two to five years). Other sources of medium- and long-term credit are well-capitalized commercial finance companies, insurance companies, leasing firms and pension funds.

Privately negotiated loans or bond placements, usually arranged by investment bankers, provide lending terms tailored to the needs of the borrower. In addition, because no underwriting is required, they allow the borrower to avoid some of the costs and delays of public offering. In April 1990, the Securities and Exchange Commission (SEC) relaxed its disclosure requirements, allowing foreign companies to quickly execute such financing in the United States.

Stock and Bond Issues

The public capital market is another source of funds for financing the investment and expansion requirements of businesses in the United States. Foreign companies or their U.S. subsidiaries have full access to the U.S. public capital market, although requirements for listing on U.S. stock exchanges are generally more extensive and stringent than those of other countries.