

Income earned by non-resident corporations carrying on business or from capital gains in Canada is taxed at the regular rates of corporation income tax. The distributable business earnings of a branch of a non-resident corporation are also subject to an additional tax often referred to as a branch tax. This tax applies to the branch earnings net of taxes that are not reinvested in the business in Canada. The branch tax, which is imposed at the same rate as the non-resident withholding tax on dividends referred to below, is designed to place non-resident corporations that carry on business through a branch in Canada in a comparable position to those non-residents that conduct their Canadian operations through a separate company incorporated in Canada.

Certain specific items of income paid to non-residents from sources in Canada are subject to tax withheld at the source by the Canadian payer. This non-resident withholding tax applies to interest (except interest on certain bonds and interest paid to certain exempt lenders), dividends, rents, royalties, management fees, income from a trust or estate, alimony, pension benefits (other than the old-age security pension and up to \$1,290 of Canada Pension Plan or Quebec Pension Plan benefits), proceeds from deferred-income plans and the taxable portion of annuities. The rate of this tax is generally 15 per cent but the rate on royalties from motion-picture and television films is only 10 per cent and the standard rate of 15 per cent on dividends is reduced to 10 per cent in the case of dividends paid by a corporation that has a degree of Canadian ownership.⁽³⁾

The Income Tax Act provides that the rate of the above-mentioned non-resident withholding tax will become 25 per cent in 1976, except for the rate on dividends paid by a corporation with a degree of Canadian ownership, which will be 20 per cent. These rates may be modified by tax treaties.

Generally, non-residents who receive from sources in Canada only the kinds of income subject to the non-resident withholding tax do not file returns in Canada. However, those who receive rents on real property, timber royalties, pension benefits or proceeds from deferred-income plans may elect to file returns and be taxed at personal or corporation rates as the case may be.

Estate and Gift Taxes

The Federal Government formerly imposed an estate tax and a tax on gifts. These taxes do not apply in the case of a death occurring after 1971 or to a gift made after 1971.

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- (3) Generally, a corporation is regarded as having a degree of Canadian ownership when 25 per cent of its equity and voting shares are owned by Canadians and/or corporations controlled in Canada, or when the voting shares of the corporation are listed on a Canadian stock exchange and no more than 75 per cent of its issued outstanding voting shares are owned by a non-resident alone or in combination with related persons. Also, at least 25 per cent of its directors must be resident in Canada.