

When pipes, valves, fittings and tools are used in transmission systems, or elsewhere, on the oil lease, other than at the well-site, a customs duty may apply.

### The Canada-U.S.A. Reciprocal Tax Convention

This tax convention was set up to eliminate or minimize double taxation by the United States and Canada. Thus there is in the convention a means of ensuring that the threat of double taxation will not be present to discourage the entry of American capital for the development of petroleum resources when it is required.

#### IX. Company Participation in the Petroleum Industry

A company carrying on work in the petroleum industry may hold either a federal or a provincial charter. The former permits Canada-wide operations; the latter restricts the company to the province in which the charter is held. Certain provisions of the Companies Acts in Canada call for an annual summary of company business and there is careful supervision of other company affairs to ensure that the public interest is upheld.

To encourage participation in Canadian business by citizens or corporations of other countries, provision is made for such interests to carry on business in Canada by any one of four methods: through the incorporation of a limited liability company, as a branch office of a foreign corporation, by setting up a wholly-owned subsidiary corporation for the handling of Canadian business only, or in the form of sole proprietorships and partnerships.

In the case of a limited liability company, an annual shareholders' meeting must be held in Canada not later than four months after the close of the fiscal year. At that meeting, a balance sheet, a statement of income and expenditure, a statement of surplus, and an auditor's report to the shareholder must be submitted for the fiscal year under review. Complete company records must be kept and they are subject to be open for inspection by the shareholders and the creditors. For federal incorporation, the fee varies from \$100 for authorized capital of \$50,000 to \$400 on authorized capital of \$500,000 plus 20 cents for each \$1,000 in excess of \$500,000.

A Canadian branch of a foreign corporation is obliged to keep proper accounting books and records, and to file tax and other returns required by the Government of Canada, provincial and municipal authorities - similar to those returns required from companies incorporated in Canada. A branch of a foreign corporation is subject to income tax on that part of its income earned in Canada and is also subject to the same rules and regulations as incorporated companies. The setting up of a wholly-owned subsidiary corporation in Canada, with head office in a foreign country, is generally preferable to operating a Canadian branch, particularly from the standpoint of a segregation of income and disbursements. However, the limited liability company operation is now being encouraged in preference to either of these forms. Sole proprietorships and partnerships are not common in the petroleum industry in Canada.