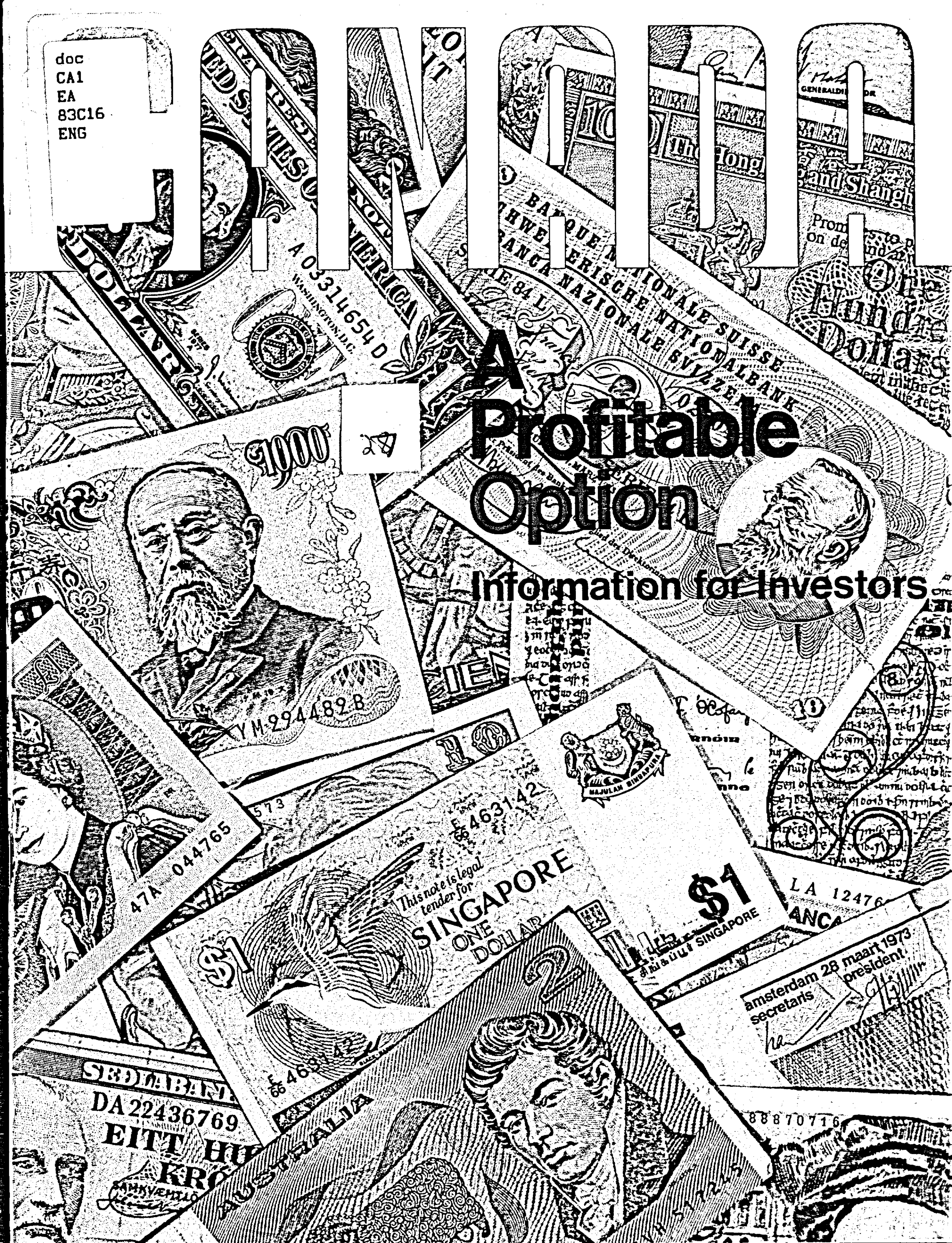
CANADA

A Profitable Option

Information for Investors



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Foreword

This publication was prepared for information purposes only and in no way constitutes a legal document binding on the Government of Canada, its departments, or agencies. This publication recognizes that the investor requires certain vital information to make business decisions and provides present and potential investors with a general description of the business climate and basic data on taxes and investment incentives in Canada. Readers should note that it was necessary to treat various laws, regulations, and taxes in a general manner. Of necessity, some details and exceptions have been omitted.

Canadian Embassies, High Commissions and Consulates General located throughout the world will be pleased to provide you with any additional information or assistance you may require concerning the many investment opportunities available in Canada.

1. Canada—The Country and The Economy

Introduction

Canada is the second largest country in the world. Its boundaries are three of the world's great oceans: the Atlantic, the Pacific, and the Arctic. The fourth border is the 6,500-kilometre land frontier with the United States. Canada's total land area is almost 10 million square kilometres.

Canada is the ninth largest trading nation in the world by dollar value, a considerable achievement for a country with a population of 25 million. The size and potential of the land, agriculture, forestry and fisheries are the original reasons for the growth of Canada. These reasons all remain. To them have been added a substantial manufacturing base, rapidly expanding mineral and energy resource development, and an enterprising and highly skilled workforce. These factors all combine to present the investor with many opportunities to expand in Canada.

Political System

The Canadian political system is a democratic federal system with federal and provincial legislatures. Jurisdiction is divided between both authorities. Canada has two official languages, English and French. Ottawa is the capital of Canada. There are 10 provinces and two territories.

The Provinces

Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and New Brunswick are Canada's Atlantic Provinces. The economy in the Atlantic Provinces is based on fishing, forestry and agriculture together with a certain amount of manufacturing and mining. These provinces will be radically changed by the discovery and development of offshore oil and gas resources which will generate new investment and industrial development. There are several modern seaports located in the Atlantic Provinces.

Quebec is the largest province in terms of area with the second largest population. The economy is based on agriculture, forestry, mining, hydroelectricity, and manufacturing. Montréal is the second largest French-speaking city in the world and a major financial and industrial centre as well as the largest inland deep water port in North America. Eighty per cent of Quebec's population is French-speaking.

Ontario is the most populous province and second largest in area. It is rich in minerals and productive timber. Agriculture and manufacturing are important elements in Ontario's economy and contribute more than half of Canada's total manufacturing capacity and almost one third of the country's agricultural earnings. Toronto, a banking and financial centre, is Canada's largest city.

The Prairie Provinces are Manitoba, Saskatchewan, and Alberta. Agriculture is vitally important in all three provinces. In addition, there is extensive oil, natural gas, and mineral production. Winnipeg is the provincial capital of Manitoba, the centre of Canadian grain and oilseed trading, and an important manufacturing city. Regina, a major prairie city, is the capital of Saskatchewan. Calgary, in Alberta, is a rapidly expanding city and the home of most of the major Canadian energy companies. It is also the centre of the western livestock industry; while the capital, Edmonton, is an important service and supply centre for the oil and gas industries.

British Columbia is the third largest province in area, and is rich in timber, minerals, and fishing. Vancouver is the third largest city in Canada and a growing manufacturing centre. The port of Vancouver handles the largest tonnage of any Canadian port and is a centre for expanding export activities.

Table 1

Canadian Exports and Imports by Country of Origin and Destination — 1982

	Percentage of Exports by Country of Destination	Percentage of Imports by Country of Origin
United States	68.2	70.5
United Kingdom	3.2	2.8
Other EEC	5.8	5.6
Other OECD	2.6	2.8
Japan	5.4	5.2
Other America	4.0	6.4
All Others	10.8	6.7
Total	100.0	100.0

The Territories

The Yukon and the Northwest Territories cover one-third of Canada's land area but have less than 1 per cent of the population. Resource exploration is now being conducted in the north. The future of the Territories is directly tied to the exploration and development of their considerable natural resources which include iron ore, tungsten, lead, coal, uranium, petroleum and natural gas.

The Economy—Profile

Canada's economy is the eighth largest in the world. With a gross national product of about US $305 billion, it is also one of the most diversified. Canada grows, develops, mines, processes, designs, manufactures or fabricates everything from communications satellites to disease resistant wheat, from advanced aircraft to strategic ores and metals and from nuclear power stations to newsprint.

Canada is one of the world's leading industrialized countries. Of all the sectors in the economy, manufacturing is the largest contributor to the country's annual output. As in other highly advanced countries, however, there has been a shift in Canada from a predominantly goods producing economy to a predominantly services producing economy.

Service industries such as finance, real estate, insurance and personal and business services, which now account for some 60 per cent of the country's domestic output, have thus complemented the important role played by Canada's resource industries and manufacturing concerns.

By dollar value, Canada is the world's ninth most important trading nation. Some 30 per cent of GNP is derived from the sale of goods and services abroad.

Both the private and public sectors are active participants when it comes to determining economic planning and development activities within Canada. In some areas such as health, social services, communications and transport, government involvement has traditionally been extensive owing to various geographic and demographic factors. Often, government programs are established to supplement those initiatives undertaken by the private sector and are designed to expand and diversify the Canadian economy.

Manufacturing

On a value added basis, manufacturing is by far the most important sector of the Canadian economy and accounts for approximately 50 per cent of the total output. This compares with 20 per cent for construction,

Table 2

Regional Distribution of Major Classes of Industry in Canada — 1982 Percentage of Output in Value Added Terms

	Atlantic	Quebec	Ontario	Prairies	B.C.	Total (Value added in $ millions)
Agriculture	3.6	12.6	25.7	52.8	5.0	8,873.6
Forestry	9.6*	15.5	15.5	3.4	56.8	2,099.1
Fishing	63.3	5.8	3.1	2.7	24.4	502.8
Hunting/Trapping	9.0**	13.2	27.8	39.6	4.7	52.9
Mining/Oil	4.5	6.2	15.7	64.6	8.2	17,851.2
Electrical Power	8.1	31.3	35.2	14.2	10.5	6,952.2
Manufacturing	4.2	27.5	48.9	8.9	10.2	55,706.5
Construction	6.8	18.6	26.7	31.4	14.7	15,332.2
* 1977 figure ** estimate						
Population (1983) %	**9.1**	**26.2**	**35.5**	**17.5**	**11.4**	**25,000,000**

15 per cent for mining and oil, and 6 per cent for agriculture. In real terms, however, mining and energy registered the largest gains during the last decade. The leading industrial activities are petroleum refining, motor vehicle production, pulp and paper milling, meat processing, iron and steel milling and machinery and equipment manufacturing.

Technology

Canada's manufacturing industry is undergoing profound technological changes. The advent of new technologies in electronics, robotics, computers and communications has brought Canada to the forefront in many areas of technology. Canada's industries are dedicated to serving world markets and increasingly, companies are moving towards world product mandating. Increased facilities and incentives in research, development and education in electronics hardware and software are demonstrating the aptitude in application and adaptability of Canada to advanced technology.

International Trade

Canada exports approximately 31 per cent of all its production and imports almost 32 per cent of all the goods and services it consumes.

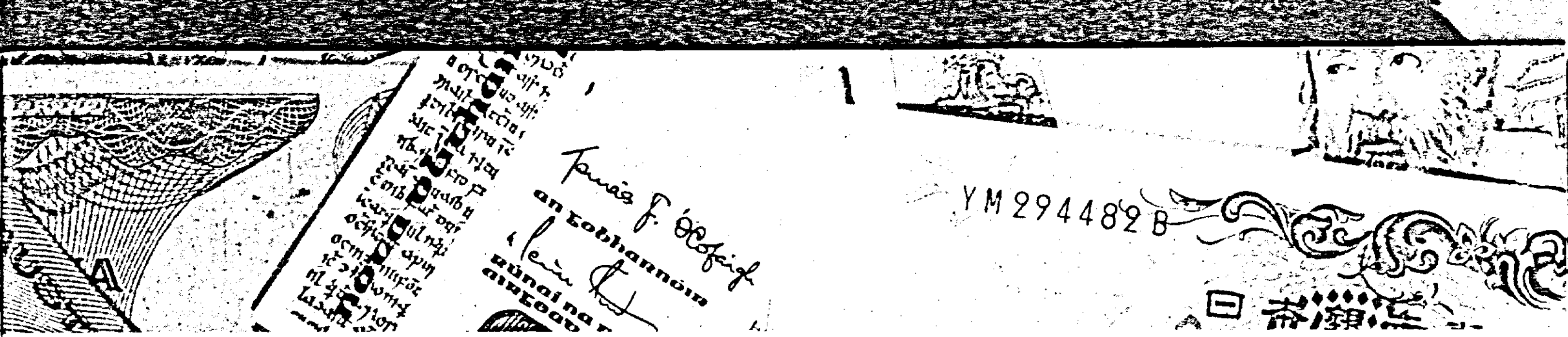
Foreign trade accounts for over 30 per cent of the GNP and is extremely important to Canada. The U.S. is Canada's most important trading partner. Other major trading partners are Japan, the United Kingdom, the Federal Republic of Germany, Venezuela, and Italy. Similarly Canadian businessmen are very active in South America, the Caribbean, Asia, and Africa.

Industrial and Regional Development

Through the 1980s and beyond, Canada faces the double challenge of realizing its substantial potential while fostering economic development in all regions of the country.

The Federal Government's Department of Regional Industrial Expansion (DRIE) has the specific mandate to stimulate national economic growth, to reduce regional disparities and to promote industrial development and trade.

A number of development agreements with each of the provinces, as well as a number of comprehensive programs, are available to assist in dealing with problems of economic growth and social adjustment.



2. The Business Environment

Canada and Foreign Investment

Foreign investment has always played a key role in Canadian industry. Both business and government in Canada are aware of the need to attract a continuing flow of foreign capital investment. Canada places relatively few restrictions in the way of foreign investors. Canada permits the convertibility of currency and does not have exchange controls. Investors are free to repatriate their profits and their investments. The Canadian business climate and every level of government encourage investors to participate in the continued growth of the economy.

Foreign Investment Review Act

Canada's policy is to welcome foreign investment provided that it is likely to yield benefits to Canada as well as to the investor. The Foreign Investment Review Act was established to give the government the opportunity to screen certain foreign direct investment proposals to determine whether or not they are, or are likely to be, of significant benefit to Canada.

Principal Features

The screening process applies generally to the following categories of investors in respect of certain of their Canadian investments:

- individuals who are non-residents of Canada;
- individuals who are permanent residents of Canada (landed immigrants) who have not exercised their right to take up Canadian citizenship within a year of eligibility;
- foreign governments and their agencies;
- companies controlled by any of the above categories or by a group that includes any of the above categories.

Only two types of investment transactions come under the scope of the Act:

- the acquisition of control of a Canadian business enterprise by foreign investors through the acquisition of shares or of the property used in carrying on the business; and
- the establishment of a new business in Canada either by foreign investors who do not already have an existing business in Canada, or by foreign investors who have an existing business in Canada, if the new business is unrelated (in terms of the nature of business activities) to the existing business.

By contrast, the Act is not concerned with portfolio investments where the purchase of shares on assets does not constitute the acquisition of control of a Canadian business. Nor is it concerned with expansions or the establishment of new businesses by foreign-controlled businesses already in Canada so long as the new businesses are related to their existing Canadian operations.

Investments that are subject to the Act must be reviewed by the Government. If the Government determines that an investment is, or is likely to be, of "significant benefit to Canada", then it is allowed to proceed.

For the purposes of determining whether or not a proposal is likely to be of "significant benefit", the Act specifies five factors to be taken into account in the assessment process. They are:

(1) the effect of the investment on the level and nature of economic activity in Canada, including the effect on employment, on resource processing, on the utilization of parts, components and services produced in Canada, and on exports from Canada;
(2) the degree and significance of participation by Canadians in the business enterprise and in the industry sector to which the enterprise belongs;
(3) the effect on productivity, industrial efficiency, technological development, innovation and product variety in Canada;
(4) the effect on competition within the industry or industries in Canada; and
(5) the compatibility of the investment with national industrial and economic policies, taking into consideration industrial and economic policy objectives enunciated by a province likely to be significantly affected by the proposed investment.

The assessment factors, which apply to all reviewable investments are, of course, given different weights according to the circumstances of individual cases. The types of industry in which the investment falls, the region in which the investment is being made, and the solvency of the company being acquired in acquisition cases will all affect the relative weights placed on the factors. It is not necessary that an investor demonstrate benefits with respect to each factor. Indeed, in the case of many investments, some of the factors may not even be relevant. While investors may choose to offer a wide range of undertakings designed to enhance the prospects for allowance of their applications, the Government has directed the Foreign Investment Review Agency to confine any discussion of undertakings to key elements of an investment proposal (even though it must consider all undertakings submitted by investors in support of their proposals). For example, research and development would be a key undertaking in the high technology sector, while Canadian participation would be a key element in the oil and gas industry.

Other important features of the Act are: it applies, generally, to all sectors of the economy, except banking; it does not discriminate among investors on the basis of the nationality of the investor; and the legislation is not retroactive. About 92 per cent of the investments reviewed under the Act to date have been found to be of significant benefit to Canada and thus have been allowed. Once foreign investors are established in Canada, they are eligible for the various industrial incentives and assistance offered by the Government of Canada and provincial governments.

Most reviewable investments are eligible for treatment under an abbreviated and simplified review procedure resulting in a substantial savings to investors in both time and in the amount of information that is required to be filed in support of an application. Investment proposals involving less than $5 million in gross assets and fewer than 200 employees are eligible for the short procedure. Moreover, indirect acquisitions (transactions involving the transfer of control of a Canadian business as a result of the foreign merger or takeover of its foreign parent) involving gross assets of up to $15 million and fewer than 600 employees are also eligible for treatment under the short procedure. Typically, about 85 per cent of all investments submitted to review are eligible to proceed via the abbreviated review route.

Apart from the formal provisions in the legislation and guidelines that help clarify and interpret difficult aspects of the review process and provide guidance to the investor, officials of the Agency stand ready to provide informal advice and assistance to investors on any aspect of the legislation and its administration. Investors are encouraged to discuss the circumstances of their investment intentions prior to the submission of an application for review. Experience to date indicates that many questions and concerns can be resolved expeditiously with consequent savings of the investor's time and expense.

Additional information on the Foreign Investment Review Act, including operations under the Act may be obtained from the Foreign Investment Review Agency, P.O. Box 2800, Station 'D', Ottawa, Canada, K1P 6A5, or from Canadian missions throughout the world.

Doing Business

Foreign companies can incorporate in Canada under either federal or provincial legislation. The federal and provincial laws are similar enough that there is no compelling legal reason to incorporate under federal rather than provincial legislation. The decision depends on the company. Provincial incorporation may be desirable if a company will be active chiefly in one province and will own substantial real estate. Federal incorporation ensures that a company can exercise the same powers in all provinces without discrimination, subject to provincial legislation.

A foreign company is required to register in the province in which it "carries on business". Usually, it must also record a power of attorney, empowering a resident of that province to carry out contracts and accept service of process in all legal proceedings by or against the firm. In addition, foreign companies in Canada are required to abide by legislation and regulations which apply to the type of business activity in which they are engaged. Regulations concerning import documentation, accounting records, and business licenses treat branch, subsidiary, and domestic concerns in exactly the same manner.

While there is no provision in Canadian law requiring Canadian participation, tax incentive measures are available to foreign enterprises with a degree of Canadian ownership. These measures are not regulatory and in no way control foreign participation in the Canadian market. An outline of these measures is contained in the "Federal Incentives to Industry" chapter.

Licensing and Joint Venture Arrangements

Canada welcomes participation from foreign manufacturers through licensing, joint ventures and contract arrangements with Canadian firms. There are no restrictions on the movement of funds into or out of the country. Banks, corporations and individuals deal in foreign funds or arrange payments in any currency they choose. An investor may liquidate his Canadian investment at any time and transfer the proceeds from Canada in whatever currency desired. During the life of the investment, profits, dividends and royalties may be remitted at will.

Often, foreign companies are not able to establish their own production facilities in Canada. In such cases, it is helpful to utilize Canadian production and distribution facilities to secure an optimum share of this growing market through a licensing or joint venture arrangement. In either of these cases, the Canadian manufacturer usually receives an exclusive license for Canada along with technical assistance and patent protection. The foreign firm may prefer to have its products manufactured under contract in Canada whereby a Canadian firm is engaged to manufacture the products and the foreign firm organizes their distribution and sale in Canada through its own or separate facilities. Mutual gains can result with a minimum of capital investment on the part of the foreign company.

Foreign manufacturers interested in Canadian manufacture under license or other arrangement should consult Canadian diplomatic missions.

Details should be provided as to the nature of the product in question, its commercial acceptability and the financial arrangement desired. The Department of Regional Industrial Expansion will contact Canadian manufacturers directly or provide nationwide publicity through the *New Products Bulletin*.

Patent protection in Canada is also important. Without a patent, Canadian manufacturers are not likely to be interested since they would have little protection against copyists.

Anti-Trust

The *Combines Investigation Act* is the legislative embodiment of Canadian anti-trust policy. The Director of Investigation and Research of the Department of Consumer and Corporate Affairs is responsible for enforcing the Act. He also advises the Foreign Investment Review Agency as to the effect of prospective acquisitions on competition. The Director also operates a voluntary Program of Compliance wherein he will offer, without prejudice, opinions as to the competition implications of specific business practices, mergers or acquisitions.

Labelling

Bilingual labelling is mandatory on prepackaged products. There are certain exceptions. In all cases, bilingual labelling is desirable since food products and other items distributed in the province of Quebec must have French labels or be accompanied by a French version.

Incidence of Taxation

The federal government is authorized to raise revenues either directly or indirectly while the provinces are limited to direct taxation. Both federal and provincial governments impose corporate and personal taxes on income as well as sales and excise tax and other special taxes. Only the federal government is authorized to levy customs duties and tariffs.

Specific information on taxation is contained in Chapter 6, while information on customs duties and tariffs is contained in Chapter 8.

Financing and Incentives

Canada has fully developed financing facilities designed to keep pace with an advanced industrial economy. The scope of activities is both varied and flexible, whether in the field of working capital finance or short and long-term investments. Chapter 4 provides potential investors with information on the scope of available financing. Federal and provincial incentives are also available and are dealt with in further detail in Chapter 5.

Energy

The major sources of energy in Canada are oil, natural gas, coal, uranium and electricity. The multiple sources of energy and undeveloped potential will ensure adequate supply to make Canada self-sufficient in the future. Recent onshore and offshore discoveries coupled with abundant hydro-electric and nuclear power sources greatly enhance Canada's long term energy prospects.

Energy Policy

The primary purpose of Canada's energy policy is to provide incentives for Canadian-controlled companies, rather than placing restrictions on foreign companies. Companies with certain specified levels of beneficial Canadian ownership are entitled to grants equal to 80 per cent of expenditures incurred in oil and gas exploration on federal lands. Grants are limited to 20 per cent in the case of foreign companies. Companies which wish to obtain production licenses for a prospect located on federal lands must have a minimum 50 per cent Canadian ownership. This applies to both public and private companies. These policies contain the government's long-term policies to reduce energy demand, eliminate oil imports, improve its share of revenues and stimulate Canadian participation in the petroleum industry.

Immigration

Canada accepts immigrants from all parts of the world, without regard to race, religion or nationality. In particular, Canada welcomes permanent settlers who have the know-how and capital to establish themelves in business. Information on the procedures to follow should be obtained from the nearest Canadian mission.

Canada also welcomes bona fide business persons on a temporary basis who wish to contact or transact business with Canadian businesses. While formalities are kept to a minimum, enquiries should be made well in advance of the proposed visit.

It is also possible to obtain permission for the temporary entry of individuals or groups of workers when their presence is of critical importance for a specific or "one-time" project. In either case, it is necessary to submit an application to the nearest Canadian Immigration Office. Applications of this sort must be accompanied by details of the specific project, the number of

Table 3

Patents, Trade Marks, Industrial Designs and Copyright in Canada

PATENTS

Duration. 17 years from issue.

Novelty. Not known or used by others before applicant's invention; not described in any patent or publication printed anywhere more than two years before filing in Canada; not in public use or for sale in Canada more than two years before Canadian application. For treaty or convention rights, Canadian application must be filed within one year of filing of first successful foreign application.

Unpatentable. Scientific principles, abstract theorems, methods of doing business, computer programs per se. There are also special provisions for substances which are prepared or produced by chemical processes and are intended for food or medicines. This list is not exhaustive.

Application procedure. Inventor or assignee must file application with the Commissioner of Patents, Ottawa/Hull, K1A 0E1, including petition, abstract, disclosure, drawing and claims. Patent rules contain stringent regulations on preparation of documents.

Examination procedure. Application is secret until patent is issued. Examination as to formal correctness, patentability and conflict with other applications. Search may be confined to Canadian patents. Appeals of Office decisions are to the Federal Court.

Fees. On filing $200; on allowance of the application $350; on filing an application to re-issue a patent $300. There are other fees charged for a number of other services provided by the Patent Office.

Compulsory licenses may be granted by the Commissioner of Patents if it is proved that the patentee has abused his patent rights.

TRADE MARKS

Duration. 15 years from registration, renewable.

Legal effect. Registration is not compulsory for protection except that articles containing precious metals must be marked with a registered mark.

The right to register is based on being the first to use the mark, to make the mark known or to file an application. Applications can be filed on the basis that the mark is in use in Canada, will be used in Canada or is registered and in use abroad.

Not registrable. A word which is primarily merely the name or surname of an individual who is living or has died within the preceding 30 years, a word which is descriptive or deceptively misdescriptive of the goods or services associated with the mark, a word which is the name of the goods or services in any language, a mark which is confusing with a registered trade mark, obscene marks, national flags. This list is not exhaustive.

Application procedure. Owner must file an application with the Registrar of Trade Marks, Ottawa/Hull, K1A 0E1.

Examination procedure. Examination as to form and registrability; application advertised in Trade Marks Journal, after which opposition may be lodged. Otherwise, application is allowed. Appeal to the Federal Court.

Fees. Application for registration $150, renewal of registration $150. There are fees charged for a number of other services provided by the Trade Marks Office.

INDUSTRIAL DESIGNS

Duration. 5 years and renewable for another 5 years.

Application procedures. Design must be registered within one year of publication in Canada, only the designer or person for whom design was executed may apply (i.e. not assignee). Applications are filed with the Commissioner of Patents, Ottawa/Hull K1A 0E1.

Examination procedure. Examination is for originality of design.

Fee. Examination and registration $150, renewal $200.

COPYRIGHT

Duration. For most works, life of the author plus 50 years. For a few other items, 50 years.

Legal effect. The creator of any original literary, musical, dramatic or artistic work retains the right to produce or reproduce the work or any substantial part of it in any material form for the duration of copyright.

Application procedure. Application for registration to be filed with the Commissioner of Patents, Ottawa/Hull K1A 0E1. Copies of the work are not to be submitted. It is advisable to mark the work with the © symbol, the name of the owner of copyright and the year of first publication when copies are sold in Canada.

Fees. Application for registration $25.

personnel who require entry, their length of service with the applicant company, and the nature of the work they will be performing. Additional information on the date and point of entry, and the intended length of stay will also be required.

Standards

Standards in Canada are not set or regulated by any single agency. Federal, provincial and municipal governments are involved, as well as private agencies. Some of the major private agencies are part of the National Standards System of Canada (NSS), an entity organized and co-ordinated by the Standards Council of Canada (SCC).

The National Standards System is made up of private and public organizations concerned with voluntary standardization in Canada.

The Standards Council of Canada operates a Standards Information Service (SIS) to assist users of standards in identifying and verifying the existence of standards documents; it also identifies the organization responsible for publishing them and advises where and how standards documents may be purchased or procured. The SIS publishes a Directory and Index of Canadian voluntary standards published by the five standards-writing organizations in the NSS.

Building, Plumbing, and Electrical Codes

Building codes are intended primarily to ensure the structural adequacy and fire safety of buildings and to prevent the development of health hazards. A number of provinces have been developing uniform building standards based on the National Building Code of Canada which is gaining widespread acceptance in the country and is often used as the basis for provincial codes. The erection or alteration of a building for commercial or industrial use is normally subject to provincial government control. Drawings and specifications must be submitted to the provincial Department of Labour or equivalent for approval. Municipalities issue building permits for their territories in accordance with their local zoning and building by-laws.

Plumbing codes are usually based on the Canadian Plumbing Code, which is a part of the National Building Code.

Canadian Standards Association (CSA)

The CSA is an independent private organization which is the recognized authority in establishing standards for a wide range of products and services including: electrical installation, electrical apparatus and equipment to be used with provincial government approval in construction.

CSA issues standards covering consumer durables and is recognized as Canada's main standards setting and product testing organization. The CSA is, in addition, involved in establishing various construction and maintenance codes and to provide a uniform standard for adoption by provincial authorities throughout Canada.

Federal Assistance

The Department of Regional Industrial Expansion (DRIE) is the focal point of federal government assistance to manufacturing and processing enterprises through their own facilities and through their contacts with all other federal and provincial departments and agencies.

Provincial Assistance

All 10 provincial governments in Canada play a vitally important role in the encouragement of industrial development in the country. Since provinces can concentrate their activities on a particular geographic area, they can provide detailed data and guidance which might otherwise not be available to the interested businessman.

To carry out its specialized work, each province has established its own department or agency. These offices can provide information and advice concerning a particular problem or proposal. For example, detailed reports can be prepared on such subjects as sources of raw materials, power and fuel costs, labour availability, hours of work and wage rates, water and sewer facilities, transportation services and potential markets for products. Tours of selected locations, available plant sites and existing plants for sale or lease can be arranged.

Municipal Assistance

In most cases, the choice of a location involves choosing a municipality. Most municipalities in Canada are actively engaged in attracting new industries to their areas and in assisting established firms with their expansion plans.

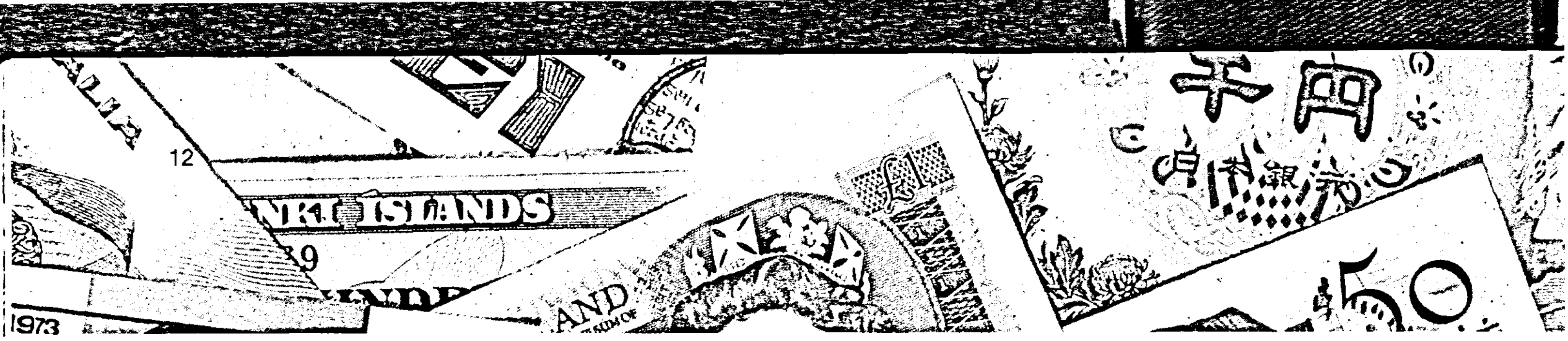


Table 4
Assistance to Business

Information and services available from the Government of Canada:
- Information on establishing a plant or locating sources of supply.
- Information on federal or provincial incentives to industry.
- Statistical and market data on Canadian production, imports and exports.
- Special import studies of individual products normally grouped under general classifications.
- Introduction to Canadian firms looking for new products to manufacture under licence, contract, or other arrangement.
- Advice and guidance on laws, regulations and other matters pertaining to the establishment and conduct of business in Canada.
- Introduction to associations, government agencies, provincial governments and municipal industrial commissioners.
- Location of sources of specialized and technical data.

3. Forms of Business Organization

Foreign investors can operate in Canada using the same forms of business organization as Canadian investors, although taxation considerations and the Foreign Investment Review Act may affect the choice of the investment method selected. Taxation considerations are covered in Chapter 6 while the Foreign Investment Review Act is discussed in Chapter 2.

The principal forms of business organization which may be established in Canada are: Sole proprietorship, Partnership and Corporation. Each form is discussed in this chapter. It should be noted that only a brief description is possible and prospective investors should investigate each form thoroughly with their legal and accounting advisors to ensure that it is possible to achieve their business objectives within the context of the form they have chosen.

Sole Proprietorship

This is a business owned by an individual which is carried on under his own or a trade name. Sole proprietorships come under provincial or territorial jurisdiction. The owner may be obliged to register the name and disclose his residential address or similar information.

Generally stated, those who are capable of entering into a binding agreement in Canada are capable of engaging in any lawful business activity. They are, of course, bound by general legal principles governing persons, property and obligations, but apart from that, there are no other legal requirements.

Almost all businesses, whether large or small, are affected by some form of government licensing. Sole proprietorships, partnerships, and corporate or other forms of business organization are equally affected. Most of the "control" requirements outlined in the following section on partnership also apply to a sole proprietorship.

Partnership

Partnerships are essentially proprietorships shared by more than one person. Partnerships take two basic forms; "general" and "limited". Each has the same power but differ in formation (in some instances), and in the liability of the members to one another and to the public. In some of the provinces, the Partnership Act makes no distinction between "general" and "limited" partnerships. In practice, however, partnerships fall under one or the other class.

The name chosen for a partnership must not be the same as that of any other registered firm or similar enough to cause confusion. The use of "and Co." and "and Company" is permissible. The words "limited", "incorporated" or their abbreviations cannot be used. In Quebec, all partnership business documents must bear the word "registered" or its abbreviation. Customarily partners sign an agreement covering the purpose of business, the name of the firm, the duration of the agreement, the place of business, capital to be contributed, division of profits and losses, the rights of management, and the procedure for termination or reorganization of the partnership.

Provincial and territorial laws both require that partnerships be registered with the proper authorities. Partnerships must also comply with the law by obtaining licenses or permits which may be required by any of the three levels of government for certain types of business. Generally only one licence is required, rather than one for each member of the partnership.

General Partnership

In a general partnership the members are jointly liable (liable in equal shares) for the debts of the partnership. They are also jointly and severally liable (each member liable for the full amount). Each partner can bind the partnership irrespective of the consent of the other partners.

Registration consists of filing a declaration signed by all partners, stating the full name and residence of each, the firm name under which business is to be carried on, and the time during which the partnership has existed. The declaration must also include an affirmation that the parties named are the acknowledged partners. Declarations are to be filed at the appropriate provincial or territorial registry.

The principal advantages of a general partnership are its simplicity, income tax treatment of business income and deductions, and the sharing of risk.

Limited Partnership

A limited partnership is composed of one or more general partners who conduct the business and one or more partners who contribute the capital. As opposed to the unqualified liability of a general partner, a limited partner is normally liable to the firm or its creditors only to the extent of the capital he has agreed to contribute. He may share in profits according to the partnership agreement, but must take no part in the management of the firm.

Parties to a limited partnership must sign a declaration stating the name under which the business is to be carried on, the nature of the business, the names and addresses of all general and special partners indicating which are the former and the latter. The declaration must also state the amount of capital each limited partner has contributed, the date when the partnership is to commence and terminate, and the principal place of business. The declaration must be notarized.

The principal advantages of a limited partnership are the limited liability for limited partners, income tax advantages and the sharing of risk.

Corporation

A Canadian corporation is a legal entity which is distinct from its shareholders and may be established either under federal law or under the laws of any one of the 10 provinces or two territories which are the equivalent of provinces for this purpose. The choice of a particular provincial or federal law will depend on a number of factors including: the nature of the business, scope of operations (national or local), disclosure and reporting requirements, share structure desired, and the residence of the directors.

Public or Private Corporations

Canadian corporations are either public or private. Private corporations are restricted in their right to transfer shares, they are prohibited from offering securities for public subscription, and they are limited to a maximum of 50 shareholders. Public corporations are not subject to these restrictions but they must conform to the disclosure requirements which are laid down by provincial and federal securities authorities. Canadian corporations are now generally established by articles of incorporation or memoranda of association. Some specialized federal companies use the "Letters Patent" system or a special government act (e.g., insurance companies or banking and loan institutions). There is no general minimum capital requirement.

The cost of incorporating includes application fees which vary on a graduated scale from $125 for the minimum capital of $40,000 or less, to an unlimited maximum. Some jurisdictions, including the federal jurisdiction, provide for an unlimited maximum capital fee of $200. It is also necessary to budget for legal fees which will vary depending on the complexity of the application.

The principal advantages of a corporation are the limited liability of the shareholder, the greater control of the business, and the ease of investment.

Incorporation under Federal Law

Federal incorporation ensures that a company can exercise the same powers in all provinces without discrimination, subject to provincial legislation. The Canada Business Corporations Act is the general statute governing federal incorporation. When contemplating operations in more than one province it is usually preferable to incorporate under federal authority.

The Canada Business Corporations Act makes provision for individuals or corporations to file articles of incorporation and receive a certificate of incorporation for any legal purpose. It is permissible for one or more corporations to incorporate a new corporation. Exceptions are businesses such as insurance, loan and trust companies, the business of banking, and the issue of paper money.

It is not necessary to state the new corporation's objectives in the articles of incorporation but the articles may set out any restrictions on the business which the corporation is planning to conduct.

The following documents must be completed and forwarded to the Director of Corporations, Department of Consumer and Corporate Affairs, Ottawa/Hull, Canada K1A 0C9: the articles of incorporation, a notice of the corporation's registered office, a notice of directors. Detailed information on incorporation procedures, a copy of the "act", and a free client information kit incorporating guidelines for incorporation are available from the Information Section of the Corporations Branch, Department of Consumer and Corporate Affairs, Ottawa/Hull, Canada K1A 0C9.

Articles of Incorporation

When articles of incorporation are filed they must contain: the proposed corporate name; any restrictions on the type of business the new corporation may undertake; the Canadian location of the corporation's registered office; details of capital stock; the number of directors; and the full names, addresses and signatures of the applicants.

It must be noted that one of the words Limited, Incorporated, or Corporation should be the last word in the company name. It is permissible to use the abbreviations Ltd., Inc., or Corp. The Corporations Branch, Department of Consumer and Corporate Affairs, will conduct a name search (and reserve the name if approved) for a fee of $5.00 per name. As a part of the application process the Corporations Branch must ensure that there is no conflict between the proposed name of the new corporation and existing corporations. The Corporations Branch may refuse a particular name on the grounds that it is misleading as to the particular nature of the proposed business. For these reasons, it is advisable to ask for a search in advance.

Corporations may use the word (Canada) in their name when they are the subsidiary of a concern with an identical name organized under the law of a foreign country, or a Canadian province. The use of (Canada) is not permitted under other circumstances, although the words "Canada", "of Canada" or "Canadian" may be used without brackets if there is no connotation of federal government participation.

A federal corporation must have its registered office in Canada. The company's books, recording its charter, bylaws, shareholders, and directors must be kept at the registered office. In certain cases it is possible to keep statutory records at a transfer agent's office.

Corporations may have any number of shares of one or more classes. When there is more than one class at least one must have full voting rights. All shares must be registered without nominal or par value. The charge for federal incorporation is a flat fee of $200.

Section 183 of the Canada Business Corporations Act permits a corporation's directors to borrow money based on credit issue obligations, and to mortgage or pledge the corporation's property, subject to the articles of incorporation, the corporation's bylaws, or the unanimous agreement of the shareholders.

There are no regulations in the Act with regard to the beneficial ownership of the shares or debentures of a corporation incorporated under the Act, except where a constrained share corporation is required. In this case, Articles of Amendment must be filed (under section 168 of the Act). Up to 100 percent of the issued capital of a corporation can be held in any country or by persons of any nationality or residence, and the corporation in question is not placed under any disability. However, there are exceptions in connection with commercial aviation, fishing, coastal shipping and broadcasting companies. The requirements for share ownership in these cases have been laid down in legislation, or have been developed in the course of administrative practice.

The Notice of Directors which accompanies the Articles of Incorporation, must name the first, or provisional, directors. A majority of directors must be resident Canadians. A resident Canadian is defined as a person who is:

a. A Canadian citizen ordinarily resident in Canada.
b. A Canadian citizen not ordinarily resident in Canada who is a member of a prescribed class of persons.
c. A landed immigrant, under the Immigration Act, and ordinarily resident in Canada. Immigrants who have not applied for Canadian citizenship within one year of eligibility are not considered resident Canadians.

A unique feature of the Act is the unanimous shareholders' agreement. This permits the shareholders of a company, by unanimous written agreement, to restrict the powers of the directors. A shareholder who is a party to an agreement of this type has the rights, and duties of a director in those areas in which the directors have been restricted.

A Certificate of Incorporation is issued only after the Department of Consumer and Corporate Affairs has received and approved a set of articles of incorporation. Federal corporations exist as of the date of their certificates of incorporation and they can commence operations from that date. Most provinces, however, require a form of registration to commence business.

Incorporation under Provincial Law

A provincial charter and incorporation is usually preferable when a company intends to restrict its activities to one province. It is usually necessary for a provincial company to take out a license in each of the provinces it plans to transact business. When a company does decide to restrict its activities to one province the instrument of incorporation is drawn up according to the laws of that province, and the company is responsible to one authority only. Duplication in the matter of filing prospectuses and reports is eliminated and the power to hold land or to commence business operations is obtained without recourse to two different legislative bodies.

Although the Companies Acts of the provinces vary according to history and local requirements, they are in the main, compatible with the general legislation under which federal companies are incorporated.

Provincial corporations usually have their head offices in the province of incorporation, and annual meetings are usually held there unless special permission is obtained to do otherwise.

Share capital may be held by anyone, either in Canada or a foreign country (with qualifications for commercial airline, fishing, and coastal shipping companies — as is the case under federal legislation). Incorporation fees vary from province to province.

The Letters Patent System

The Letters Patent System of Incorporation is used in the Provinces of New Brunswick, Prince Edward Island, and Quebec. The legal requirements are similar to those in the Federal Act.

The Registration System

The Registration System of Incorporation is followed in Newfoundland, Nova Scotia, Ontario, Manitoba, Saskatchewan, Alberta, British Columbia, Yukon, and the Northwest Territories. Under this system, the type of incorporation which may be effected varies in each of these jurisdictions. In general, one or more applicants may incorporate a company.

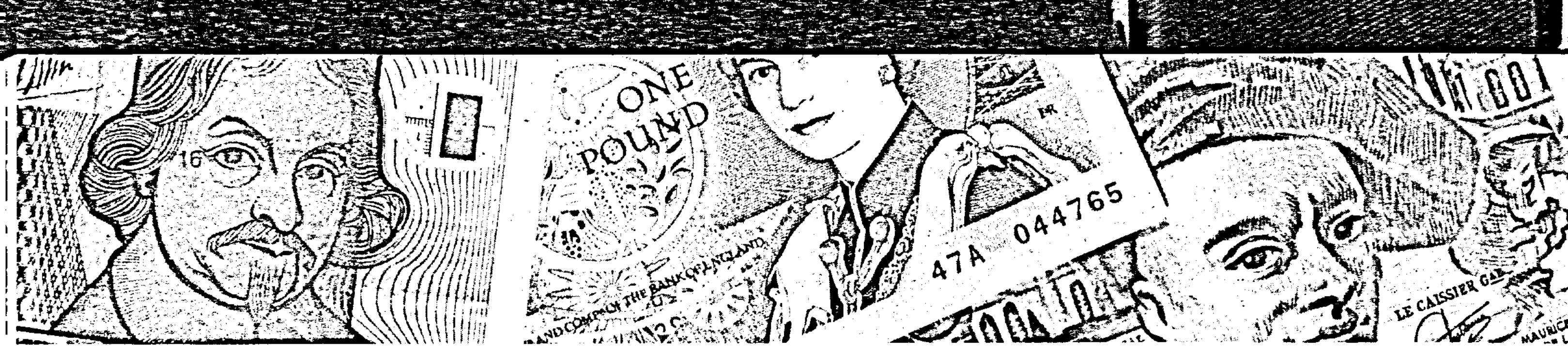
Prospectus

Any company proposing to sell securities must file a prospectus with the relevant provincial authorities in the provinces where the sale is to be undertaken. Federal companies are not exempt; in addition they must file a prospectus with the authorities in Ottawa.

Mixed Forms

Certain "mixed forms" of business organization are also possible in Canada; these include: The Holding Corporation, The Corporation as a General Partner of a Limited Partnership, The General Partnership of Corporations, and others. Each "mixed form" offers its own advantages and foreign investors should investigate these additional forms with their legal and accounting advisors to determine whether they are suitable for their business purposes.

Foreign investment in businesses in Canada has been facilitated by reforms in existing regulations and federal legislation in recent years. Corporate legislation in particular has become more flexible and streamlined by these reforms, which have made a greater number of investment vehicles and methods available to investors.



4. Financing Canadian Industries

Canada has sophisticated and highly developed financial institutions and markets, similar in many respects to those available in the United States. Foreign investors establishing a business in Canada are able to obtain financing from private sector financial institutions and intermediaries.

The major financial institutions include chartered banks, mortgage, loan and trust companies, sales finance companies, insurance companies, and pension funds. The major financial intermediaries include investment dealers and investment bankers who can arrange financing in various ways, either on an agency basis or as underwriters guaranteeing the placement of funding. In addition, several new and innovative forms of financing have emerged in recent years in the high risk and venture capital field.

In November 1980, Canada amended its Bank Act to allow foreign banks to operate Canadian subsidiaries on a commercial basis. As a result, the number of chartered banks has increased dramatically. A foreign bank must obtain a charter under the Bank Act and may operate one branch in addition to its Canadian head office.

Canada's nationally chartered commercial banks are the chief sources of short-term funds. Of these, the five major national banks account for almost 95 per cent of the country's total banking assets. Most Canadian banks are well represented on the international scene.

Stock and bond issues

Corporate stock issues can usually be floated without difficulty and legal requirements are relatively uncomplicated. Issues must be approved by the appropriate provincial securities commission, which must also clear the prospectus. Canadian requirements are quite similar to those of the U.S. Securities and Exchange Commission. If a stock qualifies, it will be registered, and admission to trading on the stock market is then routine. Canada has three major stock exchanges: Toronto, Montréal, and Vancouver.

Public bond issues must be cleared through the provincial securities commissions, which handle all prospectus filings. Canada's bond market is expanding in part because of the rapid growth of corporate pension funds and other institutional funds.

Chartered Banks

Canada has traditionally been distinguished from a number of other major industrial nations by the dominance of a few very large chartered banks. In Canada, the chartered banks are federally licensed and carry on a broad range of commercial banking activities. The five biggest rank among the largest in the world.

The largest Canadian banks each have total assets in the range of $44 billion to over $90 billion. Canadian chartered banks have extensive branch networks in Canada and abroad, each having more than 1,000 branches. Because of the size of these banks and due to Canadian banking legislation, it is not unusual for a single Canadian chartered bank to make extremely large loans.

The Canadian banks provide both working capital financing and term financing to businesses. The Canadian banks also provide personal loans and sales finance arrangements to finance sales of tangible property both to retail and wholesale buyers. In addition to providing loans, they provide a full range of commercial banking services.

Since 1980, in addition to the 11 Canadian chartered banks, over 50 agencies or subsidiaries of most of the large multinational banks also operate in Canada under the provisions of banking legislation and are entitled to operate as full chartered banks.

Mortgage, Loan and Trust Companies

Mortgage, loan and trust companies may be incorporated under either federal or provincial legislation. They are deposit-taking institutions, in many respects similar to the Canadian chartered banks.

However, these institutions do not normally provide a full range of commercial banking services. Certain businesses might finance using loans from these institutions either on a term basis or on mortgage security. These institutions generally invest their funds in private residential mortgages and in shorter-term mortgages on a wide variety of commercial and revenue producing properties. They are in many ways similar to the savings and loan institutions in the United States.

Other Financial Institutions

Businesses requiring financing have a number of other institutions they can approach in addition to commercial banks, mortgage, loan and trust companies. These include both general and life insurance companies as well as sales finance companies and pension funds. Normally, these institutions would be approached for term financing of an intermediate nature of up to ten years, or for long-term financing with terms as long as 30 to 40 years for certain types of real estate. Foreign corporations entering Canada with significant capital requirements on a long-term basis may wish to approach these institutions.

Sales finance companies provide a wide range of financing services to businesses, including term loans and inventory financing arrangements as well as arrangements to finance the sale of the product to the ultimate customer. They also provide, as do certain of the other financial institutions, various forms of leasing accommodation.

Financial Intermediaries

Canada has developed financial markets with stock exchanges operating in several cities.

Before a company can have its securities listed on a stock exchange, it must offer its securities to the public by filing a prospectus or an offering circular with the relevant provincial securities commission. Each province has a securities commission, and a corporation wishing to issue securities must file a prospectus in those provinces where it wishes to issue its securities to the public.

The sale of securities to the public is managed by investment dealers who might offer the securities on a best efforts or agency basis, or they may underwrite the issue. Except for quite large, new ventures, it is usually impractical to consider offering securities to the public when a corporation first establishes itself in Canada. However, if an existing Canadian corporation is acquired and if that company needs funds for expansion, it may be practical to consider a public offering.

More frequently, investment dealers or investment bankers provide a service to corporations by placing their securities on a private basis with institutional investors such as life insurance companies, pension plans and a number of private corporations and individuals with large amounts available for investment. When securities are placed privately, the securities legislation has provisions that relax the requirements of filing a prospectus or an offering circular with the various securities commissions.

Government Sources of Financing

Many business ventures cannot take advantage of the normal sources of credit. For various reasons, there is often a need for government sponsored loans to provide the financing for particular projects, or to give some incentive to locate in Canada or in a particular region. Each of the provinces and the federal government provides credit or loans through various agencies. Generally, loans from government sponsored financial institutions are at competitive rates. However, the government financial institutions provide credit as lenders of last resort in circumstances when credit might not be available from private financial institutions.

The Federal Business Development Bank (FBDB) provides financing for businesses, particularly smaller enterprises, that cannot obtain commercial bank financing on reasonable terms. Besides term loans, the FBDB offers loan guarantees, equity financing, leasing, and Management Counselling Assistance to Small Enterprise (CASE). Long-term loans are also available to companies that qualify for incentives from the provincial development corporations.

Each of the provinces operates some kind of financial agency which provides credit assistance to business in the province. Terms are usually negotiable on a case by case basis.

The Export Development Corporation (EDC) is a Crown corporation that provides financial services to Canadian exporters and foreign buyers to facilitate and develop export trade. It does this through a wide range of insurance, guarantee and financing sevices not normally provided by the private sector.

EDC services are provided to assist Canadian exporters, who are offering competitive products in terms of price, quality, delivery and service, to compete internationally. Exporters in other countries have access to similar support facilities from their governments.

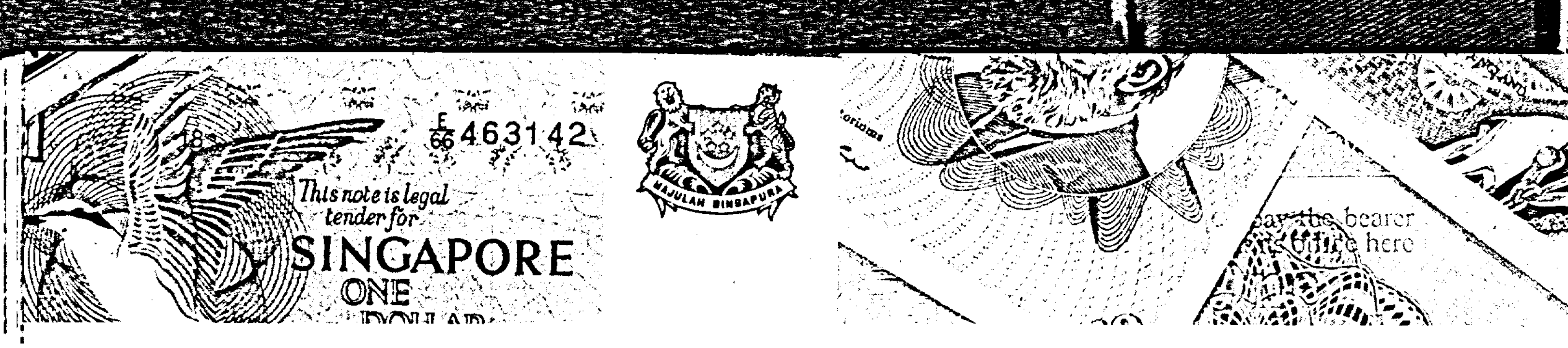
There is no minimum value of export business required to qualify for support. The corporation continually reviews its programs and is prepared to consider tailoring its facilities within its legislative limits to meet the specific needs of exporters with high potential for growth and competitiveness.

The facilities of EDC are not intended to subsidize exporters but are designed to assist exporters in competing on an equal basis with their foreign competitors and to promote Canada's export trade.

Comprehensive information on the financing which is available from the Federal Business Development Bank can be obtained from the Bank's head office at 901 Victoria Square, Montréal, Canada, H2Z 1R1.

Information on the Export Development Corporation's complete range of financial services can be obtained from EDC's head office at 110 O'Connor Street, Ottawa, Canada, K1P 5T9.

The following chapter contains information on the range of support provided to industry by the federal and provincial governments in the form of incentives or special financing assistance.



5. Federal and Provincial Incentives to Industry

Introduction

This chapter is intended to highlight the major incentive programs available to industry at the federal and provincial levels.

Canada has undergone a modern industrial revolution in which advanced technology, modern transportation facilities, and a highly skilled and flexible labour force are combined in an expanding market with a factory based system of specialized production to serve it. These basic changes have decisively committed the Canadian economy to a high technology industrial future.

Canadian governments, both federal and provincial, are aware that an attractive investment climate must be complemented by positive incentive measures geared to the needs of industry and the country's requirement for a maximum growth rate based on available resources. For this reason, both federal and provincial governments offer a wide range of incentives.

The federal government's multi-billion dollar economic and industrial development programs provide grants, loans, loan guarantees, and insurance. Certain types of activity such as research and development, manufacturing or processing are also promoted through grants or tax concessions.

Provincial government incentives usually consist of loans, grants, and occasionally equity participation.

The various levels of government also offer counselling services, product purchase programs, or programs related to specific industries such as mining, forestry, farming, telecommunications and other sectors.

Federal Incentives and Programs

Federal government programs are designed to cover the following areas of economic activity:

- — Establishment, modernization or expansion of plant and facilities. Programs generally apply to specified parts of Canada or to areas where small to medium sized manufacturing or processing is being restructured or rationalized.
- — Product improvement or productivity and design involving new products or processes, or improvements to existing products.
- — Research and development.
- — Projects designed to increase the level of employment or to re-educate and increase the skills of employees through training.
- — The development of certain industries such as textile, footwear, fashion design, or defence industries.
- — Advancement of high technology industries.
- — Expansion of export markets and the replacement of imports which will improve Canada's balance of payments.

Industrial and Regional Development Program

The federal Department of Regional Industrial Expansion (DRIE) has the specific mandate to:

- stimulate national economic growth
- reduce regional disparities through leverage of investment; and,
- promote industrial development and trade.

Joining two former government departments allowed for an extensive review of the financial assistance programs that were previously managed separately. Of major importance has been the creation of the Industrial and Regional Development Program (IRDP) which takes the best features of seven former programs, adds a number of new elements and has greater flexibility. Although it is a national program, it is especially sensitive to the more economically disadvantaged regions of Canada.

This key instrument, the IRDP, is the government's principal means to deliver direct federal aid to industry.

Manufacturers, processors, certain tourism operators and selected services in all of Canada are eligible. Four tiers of assistance are offered on a progressively increasing basis with the greatest support available in the most economically disadvantaged areas of the country.

IRDP has a streamlined delivery mechanism and has decentralized decision-making in the case of smaller projects. This will increase the availability and usefulness of the program for small and medium-sized businesses. The elements of the program can be applied to reflect local opportunities in each region.

Intended to support private sector initiatives, IRDP is aimed at projects, industries and technologies with the greatest potential for economic return, sustained growth and international competitiveness.

IRDP responds particularly to the needs of small and medium-sized businesses and complements other federal programs and the Federal Business Development Bank. IRDP features of particular interest to such firms include:

- A simpler, more flexible program structure;
- Regionalized decision-making and program delivery for many projects;
- Eligibility for assistance by unincorporated entities;
- Broader support for consultants' studies and venture capital searches;
- Access, for small businesses, to innovation assistance for projects involving new products but not substantial risk;
- Support for marketing initiatives;
- Support for selected service sector operations related to manufacturing, processing or tourism.

The Program Elements

Many worthwhile projects fail because assistance is not available at a specific stage in their growth. IRDP addresses this problem by providing a range of financial support including grants, contributions, repayable contributions, participation loans and loan guarantees over all the phases of a typical corporate production cycle. The elements of the program are:

- industrial development climate
- innovation
- establishment
- modernization/expansion
- marketing
- restructuring.

Since the assistance required depends on the nature of the project and the need for support, the program flexibility will enable this assistance to be tailored to the particular circumstances of the applicant.

Regional Designation

While the program is a national one, and support is available for all areas, not all areas of Canada enjoy the same economic prosperity. Accordingly, to further encourage and stimulate industrial activity in the more economically disadvantaged areas and to reduce the disparity between regions, enriched support is available to those more disadvantaged regions. Targeting support is achieved through the use of a "development index", based on a formula using Canadian government statistical data. Using 260 of Canada's census divisions as the basic unit, the level of unemployment, the level of personal income, and the provincial fiscal capacity were combined to provide an objective means of determining which regions of Canada are most in need of support. There are four tiers of assistance.

Tier 1 represents a basic national level for support. Tiers 2, 3 and 4 provide progressively greater assistance.

The level of support indicated as available is the maximum. The actual amount offered will be subject to analysis and negotiations for larger projects.

General Program Criteria

Project Eligibility

A project will not be eligible if a legal commitment has been made in its regard previous to the date upon which the department receives the application.

Incrementality

No project may be supported that would not proceed, insofar as location, scope or timing are concerned, unless support is provided.

Commercial and Economic Viability

The project and persons undertaking the project must be considered to be economically and commercially viable within reasonable bounds of risk.

Program and Economic Benefits to Canada

The project and exploitation of the results of the project must represent significant net economic or social benefit to Canada within reasonable bounds of risk.

Eligible Applicants

Individuals, associations, partnerships, co-operatives, bodies corporate, and non-profit organizations are eligible provided the project or activity is undertaken in Canada. Assistance available will depend on the type of project or activity.

Amount and Conditions of Program Support

Eligible projects will not necessarily be supported at the maximum levels. The minimum amount of financial support required for the project to proceed and for economic benefits to be maximized will be provided.

Targeting Program Support

Priorities will be set after consultations with the private sector and other interested persons. Project proposals will be ranked according to the priorities and the economic benefits of the project. Regional development considerations will be of paramount importance.

Eligible Assets

Capital assets acquired prior to the date on which an application is received in the department will not be considered when calculating eligible costs under the program.

The Decision-making Process

Eligibility for support does not mean an automatic right to assistance. Projects are selected according to government priorities to ensure that government support, if given, will have the greatest possible impact and will yield the maximum return.

Each eligible project is assessed in relation to other projects and its priority is determined by the benefits and regional impact expected to result.

Authority to approve smaller projects has been delegated to the regional offices of the Department of Regional Industrial Expansion, thereby reducing the time required to reach a decision. Larger projects are reviewed from the national perspective.

Table 5
Federal Incentive Programs

Type of Business Activity Incentive May Apply To:	Program	Incentives available
Capital Projects		
• Establishment projects for project feasibility, market research and other establishment studies; plant establishment.	IRDP—Industrial and Regional Development Program	Contributions of up to 75% of eligible costs for studies and up to 60% for plant establishment.
• Capital projects *in designated Canadian communities* experiencing serious industrial dislocation problems.	CIAP—Community-based Industrial Adjustment Program	Grants up to 75% of costs associated with feasibility studies for expansion or relocation to these areas. Loans up to 50% of the eligible capital costs of the project (interest-free).
• Modernization or expansion of firms in textile, clothing and footwear industry or other enterprises willing to expand *in a designated area.*	CIRB—Canadian Industrial Renewal Board	Grants up to 25% of capital costs of modernization. Up to 50% of capital costs of restructuring. Loans up to $1.5 million for mergers and acquisitions.
• Equipment purchases by a firm in the Canadian defence industry, enhancing its technological competence.	DIPP—Defence Industry Productivity Program	Cost-sharing grant of up to 50% of approved cost of equipment.
• Importing of advanced equipment not available in Canada.	MACH—Machinery Program	Remission of certain import tariffs to reduce acquisition cost.
• Purchase of machinery and equipment for earth-moving, manufacturing and processing, pollution control and energy efficiency uses.	Revenue Canada—Accelerated Capital Cost Write-off	Deduction from taxable income of cost of equipment at accelerated rate of up to 50% per year.
• Purchase of assets to be used in manufacturing and processing, or of prescribed transportation equipment, with special emphasis on assets to be used *in designated areas.*	Revenue Canada—Investment Tax Credit	Tax credit of 7 to 20% of qualifying capital expenditures, depending on geographic area of use.
• Purchase of assets to be used in the expansion or modernization of existing facilities or the establishment of new facilities *in designated areas.*	Revenue Canada—Special Investment Tax Credit	Tax credit of up to 50% of qualifying capital expenditures.

Table 5 (continued)
Federal Incentive Programs

Type of Business Activity Incentive May Apply To:	Program	Incentives available
Product and Productivity Improvement		
• Industrial development climate projects for studies, scholarships, courses, centres and institutions, information dissemination, economic development studies; infrastructure related to industry.	IRDP—Industrial and Regional Development Program	Grants or contributions to allow the project or activity to proceed.
• Innovation projects for studies, developing new products or processes, developing technological capability, development and demonstration projects, and product design.	IRDP—Industrial and Regional Development Program	Contributions of up to 75% of eligible costs.
• Productivity improvement projects for industry *in designated areas.*	CIAP—Community-based Industrial Adjustment Program	Cost-sharing grants of up to 75% of the cost of the study.
• Productivity improvement projects for the textile, clothing and footwear industry or other restructuring activities for enterprises *in a designated area.*	CIRB—Canadian Industrial Renewal Board	Cost-sharing grants of up to 75% of the cost of the study and contributions toward implementation.
Employment and Personnel Training		
• Expansion and improvement of employee training programs to increase productivity and employment opportunities in certain industrial categories and employee training in specialized skills.	NTP—National Training Program	Reimbursement of direct off-the-job training costs and between 50 and 100% of trainee wages.
• Assistance in manpower planning for companies engaged in expansion. Assistance with worker related productivity problems. Job training.	MCS—Manpower Consultative Service	Reimbursement of up to 50% of costs of labour-management committees and up to 50% of costs of moving redundant employees to other employment.
• Wage subsidies for employers who hire and provide work experience to employment disadvantaged.	Career—Access	Reimbursement of up to 85% of participant wages. Reimbursement of some costs related to employment of person.

Table 5 (continued)
Federal Incentive Programs

Type of Business Activity Incentive May Apply To:	Program	Incentives available
Technical Research and Development		
• Long-term applied research in high-technology areas, such as novel computer programming, medical technology or exploratory engineering work, which has commercial application. Use of external R&D facilities, by small companies with less than 100 employees, to solve specific technical problems.	IRAP—Industrial Research Assistance Program	Grants of up to 100% of R&D salaries, to a maximum of $600,000 or 50% of total R&D costs, whichever is less, and cost-sharing grants of up to $25,000 for salaries of professionals working on project.
• Modernization/Expansion projects for related studies and research, modernization and expansion projects and for first application of electronic-dependent products and processes.	IRDP—Industrial and Regional Development Program	Contributions of up to 75% of eligible costs for studies and electronic applications and to 50% for other projects.
• Development of new and improved techniques to achieve reduced energy consumption.	IERD—Industrial Energy Research and Development Program	Cost-sharing grants of up to 50% of the project's labour, materials and service costs.
• Enhancement of technological competence of Canadian defence industry in its export activities.	DIPP—Defence Industry Productivity Program	Cost-sharing grants of up to 50% of R&D on specific defence-related projects.
• Development and demonstration of technology to result in greater resource conservation.	DRECT—Development of Resource Energy Conservation Technology	Cost-sharing grants of between 50% and 80% of project costs.
• Exploitation of National Research Council research results.	PILP—Program for Industry Laboratory Projects.	Grants of up to 100% of project costs.
Technical Research and Development		
• General encouragement of current and capital expenditures in Canada on scientific research activities.	Revenue Canada—Income Tax Incentive	100% deductibility from income for expenditures on scientific research, with an additional 50% allowance for defined incremental expenditures.
	Revenue Canada—Investment Tax Credit	Additional 10% to 25% tax credit for expenditures on scientific research, depending on geographic area.

Table 5 (continued)
Federal Incentive Programs

Type of Business Activity Incentive May Apply To:	Program	Incentives available
Export Development and Investment Incentives		
• Promotion of export market by providing financial assurance on international trade.	EDC—Export Development Corporation	Assistance includes: export credit insurance for loss on nonpayment; long-term financing assistance; surety insurance for performance guarantee; foreign investment guarantee for loss due to expropriation, war, etc.; discounting of foreign receivables.
• Procurement and consultative services to over 90 countries to develop trade between Canada and other countries, supports private sector in capital projects.	CCC—Canadian Commercial Corporation	Acts as prime contractor with client country; subcontracts with Canadian firms; assists with prompt payment.
• Promotion of Canada's export trade and export market consultancy. Encourages foreign investment in Canada.	External Affairs, Trade and Industrial Development Offices, and International Bureaus	A wide range of assistance and services. Market access information. Investment information.
• Marketing projects for project feasibility, market research, advertising, tourism related projects (e.g. information dissemination, special events, conferences) promotion of Canadian Standards and Product Specifications, catalogues, trade shows and export market development.	IRDP and Program for Export Market Development (PEMD)	Contributions of up to 75% of the cost of studies and tourism-related projects.
• Business expansion in developing countries.	CIDA—Canadian International Development Agency	Grants of up to $100,000 for feasibility studies on investment opportunities.
Specific Industry Development		
Film industry		
• Promotion of Canadian film productions, excluding educational films and documentaries.	CFDC—Canadian Film Development Corporation	Grants of up to 60% of production costs.
• Investment in video tapes and motion picture films.	Revenue Canada—Accelerated Capital Cost Write-off	Deduction from income of: 100% of cost of certified feature films or commercial messages; 30% for other motion picture films or video tapes.

Table 5 (continued)
Federal Incentive Programs

Type of Business Activity Incentive May Apply To:	Program	Incentives available
Textile, clothing and footwear industry		
• Restructuring and modernization of textile, clothing and footwear industry.	CIRB—Canadian Industrial Renewal Board	Grants of 25% to 50% of capital costs. Cost-sharing grants of up to 75% of restructuring studies.
Defence industry		
• Development of technical competence of industry and promotion of exports.	DIPP—Defence Industry Productivity Program	Cost-sharing grants of up to 50% of approved cost of equipment and development on selected projects.
Book publishing industry		
• Encouragement of developing, publishing, marketing and distribution of Canadian books.	BPDP—Book Publishing Development Program	Cost-sharing grants vary by type of assistance.
Forest industry		
• Encouragement of substitution of forest and mill residues for other forms of non-renewable energy.	FIRE—Forest Industry Renewable Energy	Grants of up to 20% of capital costs of conversion or installation of facilities to use forest biomass or pulp mill effluents.
Financing Small Business		
• Medium and long-term financing to small borrowers unable to obtain reasonable financing elsewhere.	FBDB—Federal Business Development Bank	Direct loans with security taken back.
• Term credit to small business for expansion purposes.	SBL—Small Business Loan	Loans of up to $100,000 arranged with chartered banks.
• Project development and corporation establishment to help small communities of less than 50,000 population create and expand businesses.	LEAD—Local Employment Assistance and Development	Funding up to $50,000 to initiate LEAD planning stage; up to $130,000 annually for operational stage; up to $220,000 annually for investments in and loans to local businesses.
Conferences, Seminars and Studies		
• Restructuring projects and associated research and studies.	IRDP—Industrial and Regional Development Program	Contributions of up to 75% of the cost of studies. 90% loan guarantees and repayable contributions of up to 25% of eligible costs for restructuring projects.

Provincial Incentives and Programs

All the provinces offer incentive programs to attract industry. Capital funds are supplied for viable projects. Terms and conditions vary on a case by case basis. The provinces can also offer feasibility and market studies and other technical assistance. Funding for job training is available in some cases.

Provincial programs tend to cover areas not covered by federal schemes. Equity participation is offered in some cases. Usually, the federal incentives are more interesting to the larger investor, because many of the provincial programs tend to focus on the specialized needs of small businessmen.

Typical provincial schemes include funding for the expansion or purchase of buildings, production equipment, anti-pollution and energy control devices, and working capital. The following can also qualify: the introduction of new products and technology, construction and improvement of tourist facilities, financing exports, and the purchase of fixed assets when jobs or operations are threatened. Certain service industries and tourist operations can also qualify.

Provincial grants or incentives are offered through various government departments and agencies and are summarized in Table 6.

Table 6
Provincial Incentives

	Nature of assistance	Purpose
Alberta	The Alberta Opportunity Company provides loans and loan guarantees. Terms are variable. Alberta Heritage Savings Trust Fund can also invest in companies in certain circumstances.	Stimulate new/expanding enterprises promoting economic growth of the province.
British Columbia	The British Columbia Development Corporation makes term loans and guarantees loans from other sources. Low Interest Loan Assistance Program available for certain designated areas in the province.	Assist in establishment, expansion and continued operation of business in the province.
Manitoba	The Manitoba Development Corporation provides loans, guarantees and equity participation.	Increase economic activity in the province.
New Brunswick	The New Brunswick Department of Commerce and Development guarantees or makes long-term loans or will take equity in new industries or expansions directly or through Provincial Holdings Ltd.	Promote establishment, development or modemization of manufacturing of processing industries in the province.
Newfoundland	The Newfoundland and Labrador Development Corporation Ltd. makes project loans and takes equity participation.	Encourage business development in the province.
Nova Scotia	Industrial Estates Ltd.: term loan financing on land and buildings, machinery and equipment.	Promote establishment or development of manufacturing/ assembling operations in the province.
Ontario	The Ontario Development Corporation, Eastern Ontario Development Corporation and Northem Ontario Development Corporation make direct loans interest-free or at favourable rates for investment and/or expansion.	Stimulate economic development and employment.
Prince Edward Island	Industrial Enterprises Incorporated offers medium or long-term loans with provisions for incentives as to principal and interests.	Assist in establishment of new businesses and expansion/ diversification of existing businesses.
Québec	The Québec Industrial Development Corporation provides interest rebates and secured loans. Less frequently, guarantees or equity participation are offered.	Stimulate economic development of industry in the province.
Saskatchewan	Saskatchewan Economic Development Corporation provides financial assistance in the form of loans, guarantees, equity participation and lease backs. Terms are variable.	Assist in establishment of industry in the province.

6. Taxation

Taxes are collected in Canada by the federal, provincial and municipal governments. The federal government derives most of its revenue from income taxes, indirect sales and excise taxes imposed upon manufacturers and importers, and customs duties. The provinces also levy income taxes (which are integrated with the federal tax), direct sales taxes at the retail level, and various taxes or royalties on natural resources. Municipalities are generally limited to property taxes for community services and school boards may, in some cases, levy tax on property for schooling purposes. All three levels of government collect fees or grant licenses for specific privileges or activities, but these are generally insignificant.

While the federal and provincial sales tax systems function in quite separate and distinct manners, most of the provinces have entered into tax collection agreements with the federal government for the collection and administration of income taxes. These provinces still retain the right to establish tax rates and thus the overall rates of income tax can, and do, vary from province to province. The Province of Quebec has not concluded a tax collection agreement with the federal government and thus administers and collects its own income tax, both corporate and personal. The Provinces of Alberta and Ontario administer and collect their own corporate income tax.

Income Tax Structure

Federal income tax is levied under the Income Tax Act on the taxable income of individuals and corporations resident in Canada for any part of a taxation year and on certain Canadian source income of non-residents. The Canadian income tax system is not based on the concept of citizenship or domicile.

To establish a taxpayer's tax liability for a year, it is necessary to determine the taxpayer's net income from all sources. Taxable income is net income for the year minus certain specified deductions. In the case of corporations, these deductions include charitable donations, certain types of dividends and loss carryovers.

All residents whether corporations or individuals are subject to Canadian income tax on their world income, subject to tax credits for foreign taxes imposed on non-Canadian income. These credits are allowed unilaterally and do not depend on the existence of tax treaties. However, in the case of corporate taxpayers, dividends from their foreign affiliates may in some cases be excluded from the corporation's taxable income if the dividend is paid out of earnings in a country with which Canada has a tax treaty.

Non-residents are generally only subject to Canadian income taxes on income derived in Canada and on capital gains realized on the disposition of taxable Canadian property.

Canada has a tax system in which income from all sources is aggregated and subject to flat rates in the case of corporations, or progressive rates, in the case of individuals.

A corporation's tax year is normally the fiscal period which it has adopted for accounting purposes. This period may not exceed 53 weeks. The tax year for individuals is the calendar year.

Corporate Taxation

Corporations are generally subject to tax at a rate of 46 per cent by the federal government, but this is reduced by a 10 per cent abatement in respect of income earned in the provinces, the Northwest Territories and the Yukon. Thus, foreign-source income not allocable to a province is the only element of income actually subject to the 46 per cent federal rate. The provinces, the Northwest Territories, and the Yukon levy their own corporate tax at rates ranging from 8 to 16 per cent for the 1983 taxation year. Thus, the overall rate of corporate tax on income earned in Canada ranges from 44 to 52 per cent depending upon the province in which the income is earned. Reductions in the general rate of tax are prescribed for certain small businesses controlled by Canadians and those that carry on manufacturing or processing activities.

A corporation that is resident in Canada is taxable on all income earned throughout the world in each taxation year. A non-resident corporation is only taxable on income earned from carrying on business in Canada or on capital gains from the disposition of certain types of Canadian property.

The starting point in the determination of taxable income is that reflected in the corporation's financial statements for the year, prepared in accordance with Canadian accounting principles. Special rules in the Income Tax Act are then used to determine the actual taxable income.

Dividend and Investment Income

Generally, Canadian corporations do not pay tax on dividends received from other taxable Canadian corporations. However, private corporations and other corporations that are controlled by or for the benefit of an individual or a group of related individuals may be liable for a special refundable tax of 25 per cent on such dividends. This tax is refundable on the payment of sufficient taxable dividends to shareholders. This tax is not exigible where the recipient corporation controls the payer corporation or owns more than 10 per cent of that corporation's voting shares having a fair market value of more than 10 per cent of the fair market value of all of the issued share capital. Where dividends are received from a non-Canadian company, other than a foreign affiliate, the dividend must be grossed-up for any tax that was withheld and the full amount included in income. A tax credit may then be claimed for the amount of foreign withholding tax. Where a dividend is received from a foreign affiliate the treatment depends on whether or not the affiliate has been engaged in an active commercial or industrial business and where such business was carried on.

A Canadian corporation pays tax at the general rate on non-dividend investment income earned by the corporation. In the case of a Canadian-controlled private corporation, however, a portion of the tax is refundable on the payment of sufficient taxable dividends to its shareholders.

There is a special provision which deems interest to have been received at a prescribed rate where a Canadian corporation loans money to a non-resident for a term longer than a year, unless the loan bears a reasonable rate of interest or is made to a controlled subsidiary corporation which uses the funds to earn business income. There is no similar exception for loans to non-resident parent corporations.

Capital Gains

One-half of realized capital gains is included in taxable income and is subject to tax in the usual way. There is no separate capital gains tax. In the case of a Canadian-controlled private corporation, however, the taxable portion of a capital gain is treated as investment income and is subject to the same refundable tax treatment that is available in respect of investment income. The non-taxable portion of a capital gain earned by a Canadian-controlled private corporation may be distributed, upon election, as a non-taxable dividend to shareholders.

Inventory

The Income Tax Act provides that individual items in inventory may be valued at the lower of cost or market value. Inventory includes the work in progress of a business that is a profession other than the professional practice of an accountant, dentist, lawyer, doctor, veterinarian or chiropractor. The first-in, first-out (FIFO) and most other established costing methods are acceptable to the taxation authorities, but the last-in, first-out (LIFO) method is not acceptable. An inventory allowance equal to three per cent of tangible moveable property included in the opening inventory of a company is deductible for tax purposes. This allowance is not subject to recapture.

Depreciation

Depreciation for tax purposes (Capital Cost Allowance) must usually be computed by the declining balance method at rates not in excess of the maximum prescribed for various broad classes of assets. In general, the costs of all assets that belong to a particular class are pooled together and a separate dollar balance is kept for each class. The cost of each additional asset acquired for the class will be added to the dollar balance of the class and, similarly, the balance will be reduced by the proceeds from the sale of any asset that formerly belonged to the class. If this process leaves a negative balance in a particular class at the end of the taxation year, that amount is brought into income. Except for classes for which a straight-line treatment is indicated, the basis to which the rates are applied is the net balance in the class at the end of the taxation year. A special rule provides that only 50 per cent of the normal capital cost allowance deduction is available in respect of the net additions to the balance of a class in a year.

The capital cost allowance rates range from 1 to 100 per cent, but the more common rates are 30 per cent for automobiles, trucks, computers, film, and certain mining and logging equipment, 20 per cent for machinery and equipment, and 5 per cent for buildings. Where depreciable assets are rented out to others, there is a general rule which denies capital cost allowance to the extent that it creates or increases a rental loss. In addition, for certain classes of depreciable capital assets used in specific activities, accelerated capital cost allowances may be claimed.

Interest Expense

Generally, any interest expense incurred in the process of earning business or property income or for the purchase of an income producing asset is fully deductible. However, where interest is payable by a corporation to a non-resident who, in conjunction with the other non-arm's length parties, owns 25 per cent or more of any class of the issued shares of the corporation, it will be disallowed to the extent that the indebtedness to the non-resident shareholder exceeds three times the equity of the corporation. Special rules are provided to calculate the equity of the corporation for this purpose.

Bad Debts

In the case of doubtful accounts receivable, a reasonable reserve may be claimed for those debts which are unlikely to be collected. Once a debt is known to be bad, it must be written off. Any recovery on a debt that has been written off is included in income in the year of receipt.

Losses

Non-capital losses for the 1983 and subsequent taxation years may be carried back three years and forward seven years. However, only a two year carryback is available in respect of non-capital losses for the 1983 taxation year for corporations that are not eligible for the small business deduction (see section entitled "Taxation Incentives" for information on which corporations are eligible for this deduction). Capital losses, on the other hand, may be carried back one year and forward indefinitely, but may only be used to offset capital gains in those years. The carryback period for capital losses will be extended to two years for capital losses suffered in the 1984 taxation year and three years for capital losses suffered thereafter. Where control of a corporation changes, the corporation's capital losses from any taxation year preceding the change of control may not be carried forward; nor can the corporation's non-capital losses unless the corporation carries on the loss business throughout the year and then only to the extent of the corporation's income from the loss business or a similar business.

Corporate Reorganizations
As a rule, transactions between taxpayers who do not deal at arm's length must take place at fair market value. Several exceptions are provided, however, to facilitate various corporate reorganizations including transfers of assets to corporations under qualifying circumstances and certain capital reorganizations, mergers and liquidations. These rules ensure that assets are considered to be transferred at their cost for tax purposes thereby postponing the tax that would be payable if the assets were considered to be transferred at their fair market value.

Taxation Incentives

The various levels of government in Canada have introduced a number of special tax incentives designed to encourage investment in certain sectors of the economy and for selected activities.

Investment Tax Credit
An investment tax credit is available at rates ranging from 7 to 50 per cent to encourage investment in capital assets and at rates ranging from 10 to 25 per cent to encourage current and capital expenditures on scientific research. The amount of the credit depends on the nature of the expenditure and the region in which the expenditure is made. Capital assets that are eligible for investment tax credits include new buildings, machinery and equipment used primarily in Canada for manufacturing and processing, mining, logging, farming or fishing activities, and equipment for transportation.

Recent amendments proposed to the Income Tax Act would extend the carryback and carryforward period for unclaimed investment tax credits and enable a portion of the investment tax credits earned on investments made after April 19, 1983 and before May 1986 to be refunded directly in cash to taxpayers who could not otherwise fully use their credits to reduce their federal tax. In addition, where the corporation wishes to pass the benefit of these credits on to its investors all or any portion of such credits may be claimed instead by purchasers of new common shares issued by the corporation after June 30, 1983 and before 1987.

Scientific Research
Expenditures on scientific research of a current and capital nature may be written off in the year in which they are incurred or capitalized and deducted either in whole or in part in any future year. A corporation may deduct an additional allowance of 50 per cent of its Canadian research expenditures to the extent they exceed the average of such expenditures over the previous three years.

Recent amendments proposed to the Income Tax Act would abolish the additional allowance of 50 per cent and in its place increase by 10 per cent the amount of the investment tax credit that the taxpayer is entitled to by virtue of the expenditures. In addition, it is proposed that corporate taxpayers be able to forego any investment tax credits and other deductions that they would otherwise be entitled to in respect of expenditures on scientific research in order that they may be able to pass on tax credits to investors equal to 50 per cent of the amount of their expenditures.

Foreign Tax Credit
A corporation resident in Canada is normally entitled to a credit against Canadian income tax for taxes paid to foreign governments. The credit is limited to the amount of Canadian tax on the foreign business income before the credit. A five year carryforward is provided for unused foreign tax credits.

Small Business Deduction
A Canadian-controlled private corporation may be eligible for the small business deduction, the effect of which is to reduce the federal corporate tax rate on eligible business income. Depending on the nature of the business activity carried on by a corporation, the small business deduction will reduce the federal corporate tax rate by 21 per cent or by 12 2/3 per cent. In order to restrict the benefit of the small business deduction to small businesses, the amount of business income that is eligible for the deduction is limited. Accordingly, in any given year a Canadian-controlled private corporation, together with companies with which it is associated, may claim the small business deduction on only

$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

income is allocated among the partners in accordance with their partnership agreement or in extreme cases in accordance with the governing provincial law.

Joint ventures will not be regarded as partnerships. The participants in a joint venture will be treated like any other taxpayer in respect of revenues earned and expenses incurred as a result of their participation in the venture.

Care should be exercised by those who are party to these endeavors because the Income Tax Act of Canada applies in different fashion to these different forms.

Individual Taxation

This publication is intended primarily for the business investor and for this reason the matter of individual taxation is treated in the broadest sense. Businesses and individuals should investigate the question of individual taxation further with the appropriate federal or provincial authorities and with their professional accounting and legal advisers.

Federal

Every individual who is resident in Canada in the year is liable for personal income tax on his income for the year from all sources inside or outside Canada.

The determination of whether a person is resident is a question of fact, but any individual who stays in Canada for 183 days or more in a year is deemed to have been a resident in that year. Special rules apply to those who reside abroad for part of the year. Federal tax rates for individuals in Canada range from 6 to 34 per cent of taxable income.

Residents of Canada are generally taxable on their world income even though part of this income may have been taxed in a foreign country. To ensure that foreign income is not subject to double taxation, the foreign tax credit provisions allow foreign taxes to offset the Canadian tax otherwise payable on such income. Foreign taxes paid on income from a business carried on by a taxpayer in a foreign country, in excess of the foreign tax credit available, may be carried forward for five years.

Income includes income from a business; wages and salary; dividends; director's fees; the interest element of annuity payments; interest; alimony received; income from estates; payments based on the use of real or personal property; one-half of capital gains (none is levied on the sale of an individual's principal residence); payments from certain income maintenance plans; adult training allowances; unemployment insurance benefits; amounts contributed on an employee's behalf to a public medical care plan; scholarships, fellowships and bursaries, as well as stock option and purchase plans.

Canadian individuals may invest in an Indexed Security Investment Plan. The plan will have the effect of eliminating the tax on the inflationary portion of capital gains on publicly traded shares of Canadian companies resulting in a significant tax reduction on capital gains on eligible investments.

An unincorporated taxpayer carrying on business in Canada may generally deduct, in computing his income, the same types of expenses as the corporate taxpayer (that is, those incurred for the purpose of earning business income). Other allowable deductions permitted in computing income include union and professional dues, moving expenses, child care expenses, employment expenses, contributions to registered retirement savings plans, registered pension plans, and registered home ownership savings plans.

A student is allowed to deduct tuition fees paid for recognized courses to gain a university degree or high school matriculation certificate, or to acquire a technical skill to improve his qualifications for employment or business.

The employment expense deduction is currently 3 per cent of a taxpayer's income from an office or employment up to a maximum of $500 a year. Recently proposed amendments will increase the 3 per cent limit to 20 per cent. No receipts are necessary. The employment expense deduction is not permitted to a commission salesman who may instead deduct his expenses incurred in earning commissions up to the amount of the commissions earned.

A taxpayer may, in computing his taxable income, deduct up to $1,000 of interest or dividend income and taxable capital gains from the disposition of Canadian securities. Dividend income or capital gains from shares held in an Indexed Security Investment Plan, however, are not eligible for this deduction. An individual with taxable dividends from a Canadian corporation is entitled to a dividend tax credit.

A number of personal exemptions and other deductions are allowed in computing taxable income. These include deductions for charitable contributions not exceeding 20 per cent of income, and medical expenses in excess of 3 per cent of the taxpayer's income.

In addition to a basic personal deduction, specified deductions are provided to taxpayers who have a dependent spouse or dependent children. A child tax credit may also be available provided family income does not exceed a threshold amount. Income tax on salaries and wages is deducted by the employer according to the established tax rates. The total of these deductions should approximate 100 per cent of the total tax payment due April 30 of the following year. The balance to be paid or refunded is calculated when a return for the year is filed. Taxpayers with more than 25 per cent of their income from sources not subject to deductions at source must pay tax by quarterly instalments.

Provincial
All provinces levy a tax on the income of individuals who reside within their boundaries or who earn business income therein. Investment income, salary and wages are allocated to the province where the individual resided on the last day of the calendar year or on his last day of residence in Canada. Where non-residents are employed or carry on business in Canada, their income for provincial income tax purposes is allocated to the province where they were employed or carried on business. The federal Income Tax Regulations outline the rules for allocating income to provinces when individuals earn business income in more than one province.

In all provinces except Quebec, the federal government administers and collects provincial personal income taxes. In these nine provinces, the provincial income tax is a certain percentage of the federal tax, which may change annually. Provincial taxes for 1983 range from 38.5 to 60 per cent of basic federal tax.

Filing Requirements and Payments
A corporation must file all tax returns within six months of the end of its fiscal year. A company is free to choose any fiscal year-end with the provision that a taxation year cannot exceed 53 weeks. Subsequent changes may be made to the year-end date, but only with the approval of Revenue Canada and, where applicable, the provinces. Canada does not permit the filing of consolidated tax returns. Individuals must file their tax returns by April 30 of the subsequent year.

Penalties and interest are charged on deficient or late tax instalments. A corporation is generally required to make monthly instalments of income tax based either on expected profits or on the past year's taxable income, whichever is the lesser. Any tax not paid throughout the year is payable within two months after the end of the fiscal year unless the corporation qualifies for the Small Business Deduction, in which case, it has an extra month to pay the balance. The rate of interest on deficient instalments charged by the federal government is reviewed periodically. Provincial interest rates, where applicable, may be different.

Assessment and Appeal
Canada relies upon the system of self-assessment whereby individuals and corporations must file their own tax returns disclosing all sources of revenue and computing the amount of tax payable. The system is buttressed by extensive reporting requirements imposed upon payers of salaries or wages, dividends, interest and a number of other income payments. After a personal or corporate tax return has been filed, a notice of assessment is issued in due course by the federal or provincial tax department concerned. At a later date, usually after an audit, a notice of reassessment may vary the original notice. However, no reassessment notice may be issued after a period of four years has elapsed from the date of the first assessment, except in cases of fraud. Taxpayers who disagree with an assessment may lodge a formal objection within 90 days from the date of the assessment notice.

Corporate and individual tax returns must be filed with Revenue Canada or the appropriate provincial department. Comprehensive information on filing procedures and other subjects discussed in this chapter can be obtained from Revenue Canada, Ottawa, Ontario, Canada K1A 0L8.

Sales and Excise Taxes

Sales, Excise, and other Commodity taxes are an important source of revenue for both the federal and provincial governments. Investors should be aware of the extent of these taxes.

Federal Sales Tax
Sales tax applies to sales of goods produced or manufactured in Canada or imported into Canada unless the goods are specifically exempted or the transaction occurs under exempt conditions. The tax rate is generally nine per cent but there are many items that are exempt, while others may be taxed at a lower or higher rate. Every producer or manufacturer of goods subject to sales tax must be licensed. Exceptions can be made in the case of small manufacturers. Exports are not taxed.

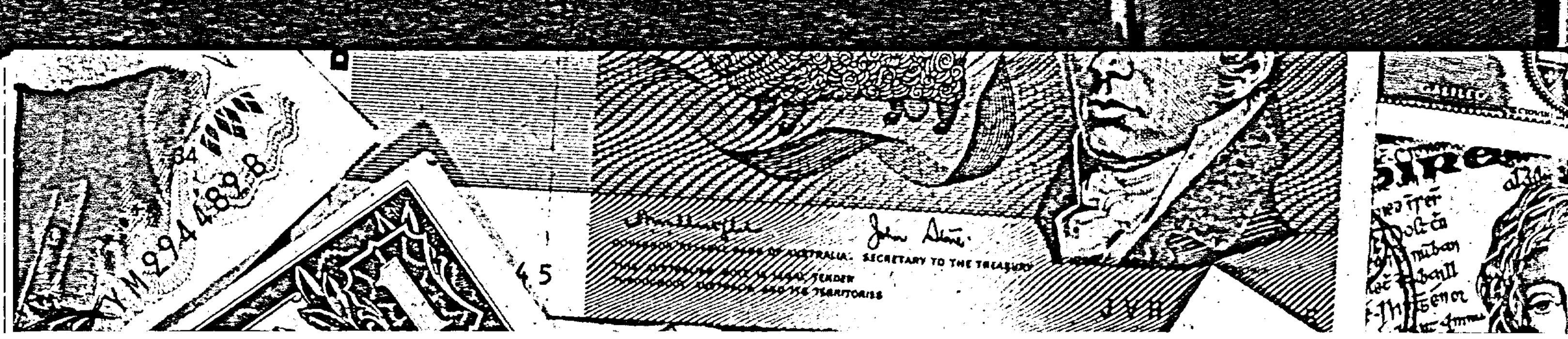
Provincial Sales Tax
Sales tax is levied by 9 of the 10 provinces at the retail level on purchases of most tangible goods and property as well as some services acquired for use or consumption within the particular province. Food and other essential items are usually exempt from tax. Sales tax rates range from 0 to 12 per cent. The retailer acts as an agent for the provincial government in collecting the taxes.

Excise Taxes
Like the federal sales tax, excise taxes are administered by the Department of National Revenue, Customs and Excise Division. However, where the federal sales tax is general in its application, excise tax applies only to a few goods. These are generally in the luxury, or the nonessential category, and include jewellery, tobacco and alcohol, gasoline and excessively heavy automobiles. No excise tax is levied on any of these goods which are exported.

Information on Sales, Excise, and Commodity taxes can be obtained from Revenue Canada, Ottawa, Ontario, Canada K1A 0L5. Information on appropriate retail sales taxes should be obtained from the provincial departments concerned.

The information contained in this chapter is provided as a guide in the field of taxation and refers mostly to the basic principles involved.

Every effort has been made to accurately reflect the legislation in force at the time of preparing the material. However, since the law contains a considerable amount of detail, prospective investors should consult with the relevant authorities and with their accounting and legal professionals concerning the incidence of taxation on their activities.



7. Labour Legislation

Labour legislation in Canada is generally the responsibility of the provincial and territorial governments. However, the Canada Labour Code establishes federal regulations for most Crown Corporations and for specific industries including transportation, communications, broadcasting, banking, grain and seed handling, and uranium mining and processing. The regulations set by each jurisdiction, federal, provincial, and territorial, are basically similar in scope although individual variations may be important to prospective employers. The following points may be of specific interest to potential investors and prospective employers.

Manpower Planning and Employment Services

The Canada Employment and Immigration Commission (CEIC) operates a network of close to 500 Canada Employment Centres across the country. The CEIC provides a free public job placement service and assists employers in recruiting skilled workers, provides comprehensive labour market information, assists in training workers where occupational shortages exist, and directs the federal government job creation programs.

Foreign Worker Recruitment

The CEIC is also responsible for selecting immigrants whose skills are required by the Canadian economy. Foreign workers require authorization to take temporary work. Prospective employers are required to show that they have looked for suitable Canadian employees before authorization is granted. This requirement is generally waived for inter-company transfers and for those managerial positions requiring a unique combination of skills and experience. Companies can bring executives in on a temporary basis. Workers granted landed immigrant status may qualify for Canadian citizenship after a three-year period of residency.

Hours of Work

Federal, provincial, and territorial jurisdictions have all established standards for the number of hours worked in a day and in a week after which overtime rates apply. The minimum overtime rate is one and one-half times the basic wage.

Non-office workers work an eight-hour day while office workers and professionals usually work between seven and seven and one-half hours a day. Although an eight-hour day is the norm throughout Canada there are some provincial and territorial differences which govern when overtime is applicable.

Minimum Wage

All jurisdictions in Canada have enacted laws which empower a person or board to establish rates of minimum wage. Usually, there exists a general rate applicable to experienced adult workers in most industries, and in addition, special rates for certain industries and occupations, such as construction, logging, agriculture or working in premises licensed to serve liquor, and for students, young workers and caretakers in residential buildings.

Five provinces have set specific minimums for one or more industries and seven provinces have set a lower rate for young workers. In 1983 the minimum wage for experienced adults ranged from \$3.50 to \$4.25 across Canada.

Minimum Working Age

The Canada Labour Code and Regulations describe conditions under which persons under 17 years of age may be employed in federally regulated industries.

In the provinces, legislation stipulates a minimum age for employment in factories, hotels and restaurants, construction, mines, and retail stores. Often the age varies among these industries, and numerous exceptions and special rules exist.

In all provinces and territories, compulsory school attendance laws forbid the employment of school-age children during school hours.

Apprenticeship and Tradesmen's Qualifications

All provinces and the territories have apprenticeship laws providing for an organized program of on-the-job training and school instruction in designated skilled trades. In some provinces, certain tradesmen must hold certificates of competency in order to work in their field.

Annual Vacations and Public Holidays

Most employees throughout Canada are legally entitled to a paid annual vacation, as well as a number of paid public holidays during the year. The general standard for annual vacations is two weeks upon completion of a year of employment. In Manitoba, employees are entitled to a three-week vacation after four years of employment and after five years in the Northwest Territories and British Columbia, while in Québec, a third week of vacation is granted after 10 years. Saskatchewan provides for a three-week vacation after one year of employment and four weeks after 10 years. For employees who are covered by the Canada Labour Code, entitlement to three weeks of annual paid vacation arises after six years.

In general practice, Canadian professionals are provided with three weeks of vacation after one year service and non-office workers after five years. Most employees receive between five and nine paid public holidays in addition to their annual vacation.

Human Rights, Fair Employment Practices and Equal Pay

Legislation which prohibits various forms of discrimination in employment is in force throughout Canada. Discrimination on the basis of race, religion or creed, sex, marital status, and origin or ancestry, are prohibited in all jurisdictions.

The federal jurisdiction and all provinces, except New Brunswick, have legislation specifically concerning equal pay. In most jurisdictions, pay discrimination between men and women is banned when employees are performing the same, substantially the same, similar, or substantially similar work. The federal law uses a standard of "work of equal value". Although New Brunswick does not specifically require equal pay for equal work, the concept is considered to be dealt with by the general provisions which prohibit discrimination in the conditions of employment on the basis of sex.

Maternity Leave

All provinces and the federal jurisdiction have regulations requiring employers to grant unpaid maternity leave and prohibiting dismissal because of pregnancy. The length of maternity leave granted can vary, but it is, usually, 17 weeks. Special provisions of the Unemployment Insurance Act permit mothers on leave to claim unemployment insurance for up to 15 weeks.

Occupational Safety and Health

Federal and provincial legislatures have the power to enact laws and regulations concerning the protection of workers against industrial accidents or diseases. However, the provinces have major jurisdiction in this field, with the federal authority limited to certain industries coming under the jurisdiction of the federal government.

Legal standards designed to ensure the safety, health and welfare of persons employed in industrial and commercial establishments, in mines and quarries and other work places, exist in all jurisdictions. The authorities responsible for the administration of such standards are, in the main, the departments of labour, health, mines, the workers' compensation boards and in certain instances, special government bodies.

General safety laws and regulations cover most aspects of occupational safety and health in the working environment. Such matters as fire safety, sanitation, heating, noise, lighting, ventilation, protective equipment, materials handling, safety of tools, electrical safety, dangerous substances, elevating devices and the guarding of dangerous machinery are covered by the safety laws and regulations.

Other safety laws and regulations are concerned with specifically hazardous industries or equipment.

Canada's safety legislation is frequently updated to suit changing industrial conditions.

Industrial Relations

The federal and provincial legislatures have enacted labour relations legislation which establishes the freedom of association and the right of employees to be represented by a trade union of their choice as fundamental features of the Canadian collective bargaining system. Procedures have also been established whereby a trade union, which enjoys the support of the majority of employees in the bargaining unit, may be certified as the exclusive bargaining agent for all employees in that bargaining unit.

Either party to a collective bargaining relationship has the right to serve a "notice to bargain" on the other. It is this notice which signals the commencement of direct negotiations. The refusal or failure of either party to bargain in good faith constitutes an unfair labour practice.

Under Canadian law, government conciliation services are available to assist the parties in resolving collective bargaining differences they are unable to settle in direct negotiations. In most jurisdictions, recourse to conciliation services is a necessary pre-condition to the acquisition of the right to strike by trade unions or the right to lockout by employers. All jurisdictions require that collective agreements be at least one year in duration.

While a collective agreement is in force, differences between the parties as to the interpretation, application or alleged violation of the collective agreement must be settled without a work stoppage. This is normally accomplished through the grievance procedures set out in the collective agreement and, where necessary, by binding arbitration.

Each jurisdiction in Canada has a labour relations board which has responsibility for the determination of appropriate bargaining units, the conduct of representation votes, the certification of bargaining units, and the hearing and resolution of complaints of unfair labour practices.

The Canadian Labour Congress, with approximately 2 million members in affiliated national and international trade unions, is the largest central labour organization and spokesman for approximately 57 per cent of all trade union membership in Canada. Although half of Canada's trade union membership is concentrated in 16 of its largest trade unions, the structure of trade union organizations in Canada is highly fragmented, with more than 800 trade unions representing a total trade union membership of 3.5 million workers.

Termination

Employers are required to give prior notice of termination in nine provinces and in the federal jurisdiction. The only exception is in cases of employee misconduct. Notice periods may range from one to eight weeks. Manitoba, Nova Scotia, Newfoundland, Prince Edward Island and Québec also stipulate that an employee must give notice to his employer before quitting his job.

Manitoba, Newfoundland, Ontario, Québec, Nova Scotia and the federal government require an employer to give advance notice of a projected dismissal or layoff of a group of employees in order to permit government authorities to develop and carry out programs to find alternative employment. In Québec, notice must be given where 10 or more persons are being dismissed within a two-month period; in Nova Scotia, 10 or more employees within a four-week period; and, in the federally regulated industries, Manitoba, Newfoundland and Ontario, 50 or more persons within four weeks or less. The periods of notice generally vary with the number of employees being dismissed but range from eight weeks to four months.

Workers' Compensation

In all provinces, compensation is provided for workers in most types of industrial employment. Workers who sustain personal injury by accident resulting from and in the course of employment or who suffer from an occupational disease are eligible.

In addition to monetary benefits, medical aid and allied advantages are provided for as long as needed, regardless of a waiting period. Rehabilitation programs have been implemented to aid in getting workers back to work and to lessen any handicap.

If death results from an occupational accident or disease, the dependants of the deceased worker receive compensation benefits.

Each workers' compensation act provides for an accident fund administered by a workers' compensation board to which employers are required to contribute and from which compensation and medical benefits are paid. The legislation thus provides for a system of compulsory collective liability.

Workers covered by the compensation scheme have no right of action against their employer for disablement arising out of their employment.

Unemployment Insurance

The Canada Employment and Immigration Commission (CEIC) is responsible for administering the federal government's unemployment insurance program. The program is mandatory for all salaried, hourly workers, and corporate management. Both employers and employees are required to pay premiums. Premium rates and the maximum insurable earnings level are set annually by the Commission. Only self-employed persons are not insurable.

In 1984, employers pay $3.22 for every $100 of an employee's insurable earnings. The maximum weekly insurable earnings in 1984 are $425. This amount is based on an average Canadian industrial wage of $425. In 1984, the maximum benefit payable under the program is $255. The benefit program therefore pays a maximum of 60 per cent of the average weekly Canadian wage for a specific period of time.

8. Canadian Customs Regulations

Canadian customs duties and import procedures must be carefully considered when doing business which involves goods or materials moving into or out of Canada.

Goods entering Canada are usually cleared at the nearest customs port, at which time duty (if any) is levied. The rate of duty, usually a percentage of the declared value, can vary according to the nature of the goods and because of trade agreements, the rate of duty can vary according to the country of origin or the country from which goods were shipped directly to Canada. The first requirement is a customs invoice covering the goods, and signed by the exporter. The invoice must show the place and date of purchase, the name of the firm or person from whom the goods were purchased, and a full description giving the quantity and value of each of the goods. Also required is a bill of entry containing the name of the importer and a full description of the goods.

If goods are to be imported into Canada on a continuing basis, exporters and importers are advised to contact Revenue Canada, Customs and Excise, in order to obtain rulings as to classification, rate of duty and valuation prior to commencing shipments.

Importing and Exporting

In general terms, the foreign investor may operate in Canada under the same forms of business organization as Canadian investors. No special federal licence or permit is required to conduct an import-export business. However, permits are required for the import or export of certain commodities, under the authority of the Export and Import Permits Act. The prospective importer or exporter must apply to the Office of Special Trade Relations, Department of External Affairs, Ottawa, Ontario, Canada K1A 0G2 each time he proposes to import or export a controlled item.

Import permits are required for a number of commodities including some dairy products, poultry products, sugar and coffee, various textile and clothing items, and endangered species.

Export permits are required for some goods especially strategic materials for shipment to certain specified countries.

The Export and Import Permits Act Handbook, Control Lists, Regulations, etc. are available from the Publishing Centre, Department of Supply and Services, Ottawa, Ontario, Canada K1A 0S9.

Tariff Structure, Classification and Rates

The Canadian Customs Tariff includes more than 3,000 classifications, or tariff items. While the majority of the classifications refer to specific commodities, many refer to the major component of the commodity in question.

The Customs Tariff sets out the rates of duty which apply to each item. Preferred rates exist in many cases for products from Commonwealth sources (except Hong Kong) and also for those from "developing nations". Goods from most other countries qualify for "Most-Favoured-Nation Tariff" and apply to goods from the United States, France, Italy, West Germany, Belgium, The Netherlands, Sweden, Norway, Denmark, etc. "Most-Favoured-Nation-Tariff" treatment has been accorded either through treaties or through the General Agreement on Tariffs and Trade (GATT).

Value for Duty

The value for duty of imported goods is generally taken to be the higher of their fair market value or selling price at the time when, and place from which, the goods were shipped directly to Canada. The fair market value declared should not be less than the equivalent price for a similar transaction at arm's length in the country of export. It is often prudent to seek advice as to an acceptable declared value, especially when a corresponding sales level does not exist in the country of export or the goods are not sold there in the same condition. Discounts are deductible in determining value for duty where they are shown, allowed and deducted on invoices covering sales for home consumption in the country of export. The Customs Act sets out in detail the rules for valuation purposes.

Verification of Value for Duty

The value for duty of imported goods depends on market and manufacturing conditions in the country of export and the exporter may be requested to provide information to prove the value that he has certified on the customs invoice. Such information may include certified copies of agreements and invoices covering sales to purchasers in the exporter's domestic market, price lists, discount schedules, purchase or manufacturing costs and particulars relating to the transaction with the importer in Canada.

Anti-dumping and Countervailing Duties

Canada, as a signatory to the General Agreement on Tariffs and Trade (GATT), has accepted agreement on the implementation of Articles VI, XVI and XXIII of the GATT, known, respectively, as the Anti-dumping Code and the Subsidies and Countervailing Duties Agreement.

The Anti-dumping Code recognizes that action may be taken to counteract dumping if it causes or threatens retardation of or injury to an established industry in the importing country. Dumping is recognized as taking place when goods are sold at a lower price for export than for domestic consumption in the exporting country under comparable conditions of sale.

Canadian provisions for counteracting injurious dumping are contained in the Anti-dumping Act, under whose provisions Revenue Canada determines dumping and levies and collects anti-dumping duties. The Anti-dumping Tribunal, which is a court of record completely separate from Revenue Canada, is responsible for rendering orders or findings on material injury or retardation.

The Subsidies and Countervailing Duties Agreement recognizes that action may be taken to counteract the importations of goods of a class or kind made in Canada benefitting from foreign subsidies which cause or threaten material injury to domestic production. Canadian provisions for counteracting injurious importation of subsidized goods are contained in Section 7 of the Customs Tariff, and its attendant regulations. Revenue Canada is charged with determining the extent of the subsidization as well as levying and collecting countervailing duties imposed by the Governor-in-Council.

The Machinery Program

The Machinery Program covers much of the machinery and equipment used by secondary industry. It provides for the remission of duty on imported machinery classifiable under certain tariff items when such machinery is not available from production in Canada and it is in the public interest to do so. The primary objective is to encourage the development of an efficient industry by allowing users of machinery to acquire capital equipment at the lowest possible cost, and at the same time enable machinery producers to obtain the maximum protection from the tariff for the products they manufacture.

Importers of machinery who wish to determine their eligibility for remission of duty should make an application to the Machinery and Equipment Advisory Board. Canadian machinery manufacturers whose machinery would be classified under this tariff item if it were imported into Canada should advise the Board that they are manufacturing, to ensure that they receive the protection to which they are entitled.

Drawbacks

The Customs Tariff includes several drawback provisions that permit the return of duty (not 100 per cent in all cases) to the importer when materials, machinery or equipment are applied to specific uses. A substantial refund of duty can usually be obtained for imported products which are consumed in the process of manufacturing goods for export.

Drawback legislation refunds customs duty and sales tax to help manufacturers compete with foreign manufacturers, both abroad and at home. For Canadian exporters, it grants a drawback of duty and sales taxes paid on imported parts or materials used in the manufacture of goods subsequently exported. In lieu of drawbacks for export, companies with proven export performance or with specific export contacts can be authorized to obtain duty remission on imported components at time of entry under the terms of the Inward Processing Remission Order. In the case of certain industries in Canada, the costs of specified plant equipment or key materials are also reduced by way of duty drawbacks.

Working and Residing in Canada

Non-Residents must have the prior approval of the Department of Employment and Immigration in order to work in Canada or to reside for a period in excess of three months. Persons in this category are advised to contact the Canadian Immigration authorities in their particular area.

Where a "non-resident" is given a "temporary resident" or "landed immigrant" status by the Canadian Immigration Service, personal belongings and household effects can usually be imported into Canada free of duty and taxes, provided certain criteria are met.

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