NON-RESIDENTS

DUKE CPA Inc.

Société de comptables professionnels agréés
Chartered professional accountants corporation

About Duke CPA Inc.

Duke CPA Inc. has its origins stretching all the way back to1959 when W D Duke arrived from Montreal and established a professional accounting office in Cowansville, Quebec. The initial Chartered Accountant firm grew over the years, merged with other firms, and brought in highly qualified CA's and now CPA's. The quality of service and client support has not changed, and the firm's expertise has expanded into numerous areas of competence. The firm has been serving clients from Montreal, the Eastern Townships, and Sherbrooke area, and beyond for over 60 years and has developed a reputation for quality and personalized service over that time. The first client the firm ever had, in 1959, is still with the firm!

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Non-Resident Business in Canada

Doing business for the first time in Canada as a non-resident can seem very complicated at first sight. Fortunately, at Duke CPA we have tax specialists who can help you throughout the process. Our specialists are here to help and make the transition easier for the foreign entity.

When a foreign company wants to establish their business in Canada, there are many taxation rules to follow. Two of the main issues that foreign companies come across are sales tax and income tax. When the first Canadian sale happens, the foreign entity will usually have no formal structure or presence in Canada and will have no reporting responsibilities with regards to either form of tax.

Sales Tax

Sales taxes are usually the first thing to affect foreign businesses. At the federal level, Canada charges a Value Added Tax (VAT). This tax is called the Goods and Services Tax/Harmonized Sales Tax (GST/HST). At the provincial level, some provinces have harmonized with the GST/HST system, which means only one tax must be collected and remitted. Other provinces collect Provincial Sales Tax (PST), which is similar to the state taxes collected in the US. As for Quebec, they have their own VAT system, called the Québec Sales Tax (QST).

Usually, the foreign business is not required to register for sales taxes. However, it is important that the “importer of record” is the Canadian client. This is because they will pay for the sales tax when the shipment is imported into Canada. The customs broker will handle the fees as well as any other customs duties that may apply. This measure is adequate for the first shipments coming into Canada.

If the foreign business decides the Canadian market is worth pursuing, and puts more directed effort towards obtaining contracts here, it will likely cross the threshold of “doing business in Canada” for sales tax purposes. At that time, it will need to register for the collection and remittance of sales taxes. Once that happens, the foreign business will be the importer of record, and will charge its Canadian client’s sales tax and remit it to the tax authorities.

Income Tax

Income tax will only apply to a foreign business when it creates a "permanent establishment" in Canada. The term permanent establishment applies if the business opens a store or office in Canada or has the existence of a sales force that is authorized to sign contracts on behalf of the business in Canada. However, it is important to note that warehousing goods in Canada does not create a permanent establishment on its own,

There is an in-between status for income tax reporting that the foreign business may fall into at some point as its Canadian presence grows. If it does not yet have a permanent establishment in Canada, but is actively pursuing and obtaining sales, it may be deemed to be "doing business in Canada" for income tax purposes, but still not be required to pay income taxes. In this stage, the foreign business must prepare and file a "treaty protected return". The tax return is just an information return, so it only reports who the business is and its gross sales in Canada. No income tax will be charged or payable.

If eventually the foreign business set up a permanent establishment in Canada, it will be obliged to report income and expenses and pay taxes on its Canadian profits.

Finally, the foreign business may decide to set up a Canadian corporation to manage its affairs here.

Although these are not all the issues a foreign enterprise may encounter, this is a general overview of the steps it is most likely to go through as its business grows in Canada.

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