

## Doing Business in Canada

By Leonard Gold

Canada offers business opportunities for companies looking to expand. Many consider Canada an attractive vacation destination but few are aware that this vast nation offers an inviting business climate. Currently, the trading relationship between the U.S. and Canada generates more than 475 billion dollars a year in two-way trade. Canada is the largest exporter to the U.S. with the province of Quebec alone the 7th largest. More than 80% of Canada's foreign trade is with the U.S. A recent study by EIU, Economist Magazine, ranked Canada as the 4th best place in the world to do business over the next 5 years. Canada's strength comes from its openness to foreign trade, according to the study.

Both the federal and provincial governments of Canada have aggressively sought U.S. investment. They have made a concerted effort to become leaders in the new economy. Canada offers U.S. investors the following advantages:

- highly educated and stable work force
- obtainable financing
- modern transportation and telecommunication infrastructure
- world-class research centers
- access to the vast NAFTA market
- attractive exchange rate
- aggressive tax incentive programs
- workforce cost advantage
- average business expenses lower than U.S. (i.e. rental costs, industrial building construction costs, and energy costs)

Quebec has become a major international center for aerospace, biopharmaceutical, and information technology and telecommunications. Montreal ranks 4th on a per capita basis for high tech job density among 15 North American metropolitan areas in these sectors. Ottawa, the capital of Canada has become known as the "Silicon Valley of the North". Many of the leading companies in the information technology industry are located in Ottawa. Ottawa is becoming known to U.S. venture firms because of the great technology being developed and the caliber of entrepreneurs that they find there. The Atlantic Provinces have transitioned themselves from mainly a fishing economy to an energy and information technology. Call centers have found Canada a very attractive place to locate due to the highly skilled labor force (including the fact that most people know at least one other language), tax incentives and low business costs.

Quebec offers investors one of the most aggressive research & development (R&D) incentive programs found anywhere in the world. The net cost for a \$100.00 CDN R&D expense can be as low as \$31.00 CDN for a large business in the non-manufacturing sector. The province has also made a concerted effort to become an international financial center. There

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are exciting tax incentives for financial corporations carrying out international financial transactions in Montreal. Companies that qualify for International Financial Center ("IFC") status are entitled to complete tax exemption on Quebec income, capital and payroll for specialized young employees. IFC status also provides employees with partial Quebec tax exemption in the calculation of income for Canadian employees and five year Quebec tax exemption for foreign employees.

A business seeking to expand into Canada must identify issues integral to such an investment. These include the following:

- should a business establish a Canadian entity
- tax exposure in Canada and how to report it
- labeling and language requirements
- employee rights and obligations under Canadian and Provincial law
- rules applicable to the cross border movement of goods
- immigration issues applicable to workforce personnel
- registration permits and licensing requirements to conduct a business in Canada
- real Estate issues depending on whether you rent, purchase or build your premises
- environmental exposure
- structuring the acquisition of a public or private corporation in Canada
- financing your expansion

It is always challenging and somewhat risky for a company to expand into a new and different business environment. Adding an international component makes this expansion even more challenging. When planning such an expansion organizations should gather as much information as possible, and should be sure to research and explore all of the possible issues and pitfalls that might be waiting for them. Having a network of contacts in your newly chosen environment who are knowledgeable about the laws, the legislation, the issues, the problems, and where to seek help is critical for the success of your company's expansion.