

Greetings from Canada



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Canada is the largest country in the western hemisphere and one of the largest in the world. It has a stable government, a highly skilled workforce, and its residents enjoy a high standard of living. The country has a well-developed transportation system and is rich in natural resources. Canada's official languages are English and French, and its federal capital is Ottawa. It is a parliamentary democracy and is divided into 10 provinces and three territories.

Canada has a thriving free-market economy, with businesses ranging from small owner-managed enterprises to multinational corporations. While its economic development was historically based on the export of agricultural staples and the production and export of natural resource products like minerals, oil and gas, and forest products, Canada now ranks as one of the top manufacturing nations of the world and boasts a rapidly expanding service industry.

While Canada has abundant natural resources and a strong banking system, the recent drop in crude oil prices is taking a toll on both the oil and gas sector and the overall economy. On the bright side, lower energy costs are helping consumers and non-resource based sectors, and the lower Canadian dollar and improved US economy are increasing Canada's manufacturing sector's exports to the US. Consumers are enjoying low gas prices and, combined with continued low interest rates, are able to spend more, though as consumer debt increases they may begin to exercise fiscal restraint. Likewise, most provincial governments are generally continuing to rein in spending to balance their books and will likely make only minimal contributions to overall economic growth in 2016 and 2017. In contrast, the federal government plans to incur large deficits in the next few years to improve Canada's infrastructure and stimulate the economy. The 2016 federal budget states that over CA\$120 billion will be spent on infrastructure over the next 10 years and that this, along with other budgetary measures, will "raise the level of real gross domestic product by 0.5% in the first year and by 1% by the second year".

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In terms of transfer pricing developments, the 2016 federal budget also includes a number of base erosion and profit shifting (BEPS)-related proposals as Canada continues to be a leading participant in the global movement toward tax transparency and accountability. These proposals include draft amendments to the Income Tax Act adopting country by country reporting (CbCR), effective for the 2016 taxation year, and penalties for failing to meet the Organisation for Economic Co-operation and Development's (OECD's) common reporting standard, under which Canada is to make its first information exchanges in 2018 on financial accounts held in Canada by foreign residents.

Canada's longstanding support of the OECD's global tax initiatives was confirmed at a recent transfer pricing conference, where the assistant commissioner (International) with the Large Business and Investigation Branch of the Canada Revenue Agency (CRA) stated that the new BEPS guidance merely reinforces Canada's current approach to international tax. As such, though the new CbCR legislation will likely have a significant effect on taxpayers, the Canadian transfer pricing rules are expected to essentially remain unchanged.

The CRA also acknowledged increasing concern among the general population about individuals and companies that don't pay their fair share of tax. It emphasised the importance of responsible enforcement and declared Canada's intention to share knowledge with developing nations to help them acquire the technical tools necessary to apply BEPS fairly and efficiently. Canada is also in favour of more arbitration and proactive approaches such as advance pricing agreements.

Last, a shout out to our global TP conference host city, Toronto, which was ranked third, behind London and Singapore, as one of the best cities to live and work in (see PwC's latest *Cities of Opportunity* 7¹ report, a biennial global study that benchmarks 30 cities against an extensive set of indicators and underlying variables to examine the social and economic qualities that make cities thrive).

Congratulations, Toronto!

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