Industry Canada
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CANADA - UNITED STATES

CORPORATE INCOME TAX COMPARISON

Canada

CANADA - UNITED STATES

CORPORATE INCOME TAX COMPARISON

Policy Sector
Industry Canada
Revised - August 1993

CANADA-UNITED STATES CORPORATE INCOME TAX COMPARISON

Keeping Canada's corporate income tax system competitive with that in the United States is important not only in the context of the Free Trade Agreement and the proposed North American Free Trade Agreement, but also for ensuring that Canadian firms are able to supply foreign markets at competitive prices and for purposes of attracting foreign investment.

This booklet is intended to serve as an introductory guide to the corporate income tax systems in Canada and the U.S. If more detailed information is required with respect to specific elements of these taxation systems, readers are encouraged to consult official publications on the particular topic or to seek the advice of taxation professionals.

The following comparison is separated into four parts:

Part 1 looks briefly at the Canadian corporate tax system within the global tax environment.

Part 2 outlines the key tax measures which characterize the American and the Canadian corporate income tax systems.

Part 3 is comprised of two components:

1. current Canadian corporate income tax rates by province; and

2. current American corporate income tax rates by state.

Part 4 outlines other taxation measures which can affect investment in both countries, including withholding taxes, minimum taxes and municipal income taxes.

This booklet includes the U.S. taxation measures resulting from President Clinton's budget which became law on August 10, 1993. Included in the many taxation measures announced by President Clinton is an increase in the corporate income tax rate.

This booklet has been prepared in consultation with the Department of Finance. For additional information about these income tax comparisons, please contact Ms. J. Baran, Policy Analyst, or Mr. B. Fields, Senior Policy Analyst, Taxation and Business Financing Policy Directorate, Industry Canada at (613) 952-7836 and (613) 954-3504, respectively.

Room # 507G

PART 1

GLOBAL PERSPECTIVE

GLOBAL PERSPECTIVE

A tax system's effectiveness in promoting a competitive economy depends not only on the level of taxation but also on the overall tax mix and the design of each of the taxes which are contained in the tax mix.

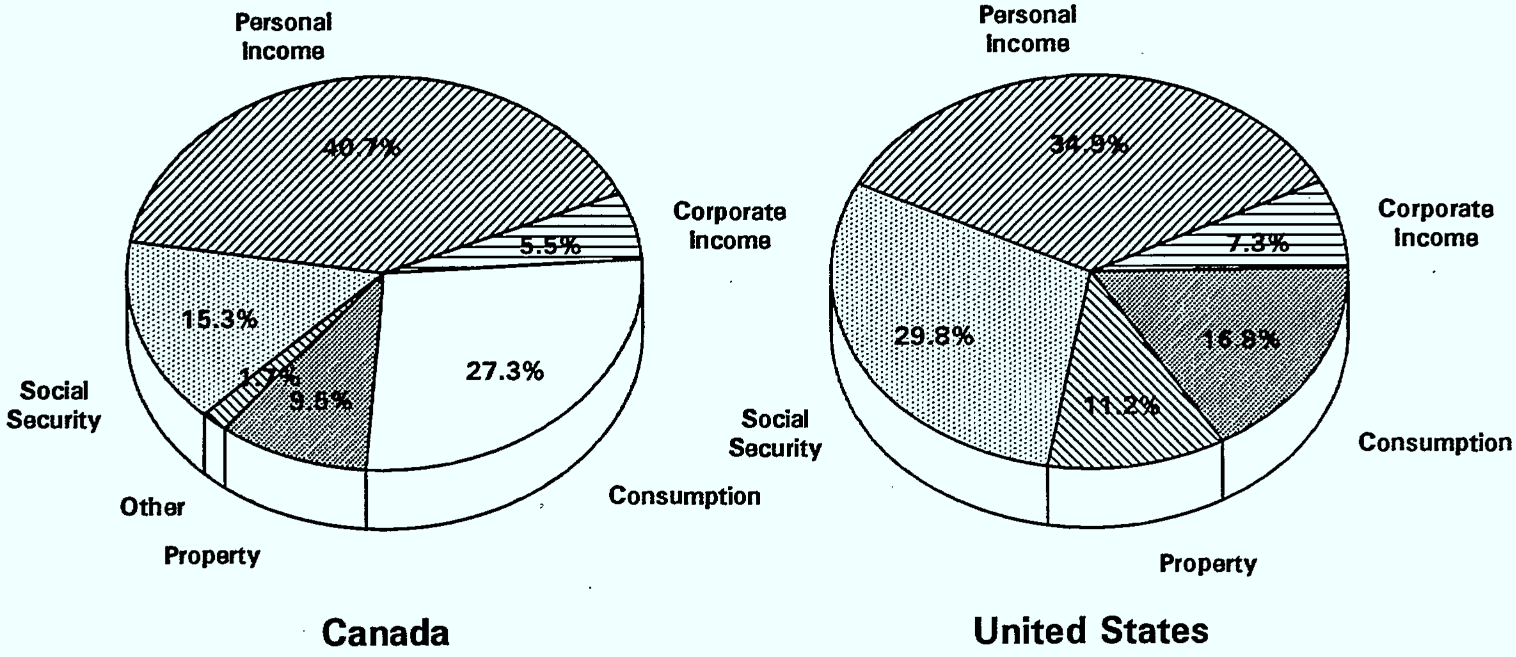
Tax mixes can vary considerably between jurisdictions (see chart 1). For example, social security taxes in the U.S. represent a significantly higher proportion of total taxes than is the case in Canada. On the other hand, Canada relies much more heavily on personal income tax and consumption taxes than does the U.S. By comparison to the U.S., corporate income tax in Canada represents a slightly lower proportion of total tax revenues.

The level of total corporate income taxes as a percent of Gross Domestic Product (GDP) in Canada is about average among the G-7 countries (see chart 2). In 1991, the ratio of total corporate income tax to GDP in Canada was 2.1%, compared to a G-7 average of 2.8% and a U.S. ratio of 2.2%.

It is important to note that the ratio of corporate taxes to GDP ignores the differences in the level of public services provided by governments. The higher general level of taxation in Canada, vis-à-vis the U.S., reflects Canada's more extensive system of government services, including a health care system which is publicly funded. If the U.S. tax system was adjusted to reflect the Canadian health care system, the gap between Canadian and U.S. tax rates would be reduced significantly. Furthermore, in the U.S., the obligation falls on employers to provide health insurance which adds significantly to the cost of doing business.

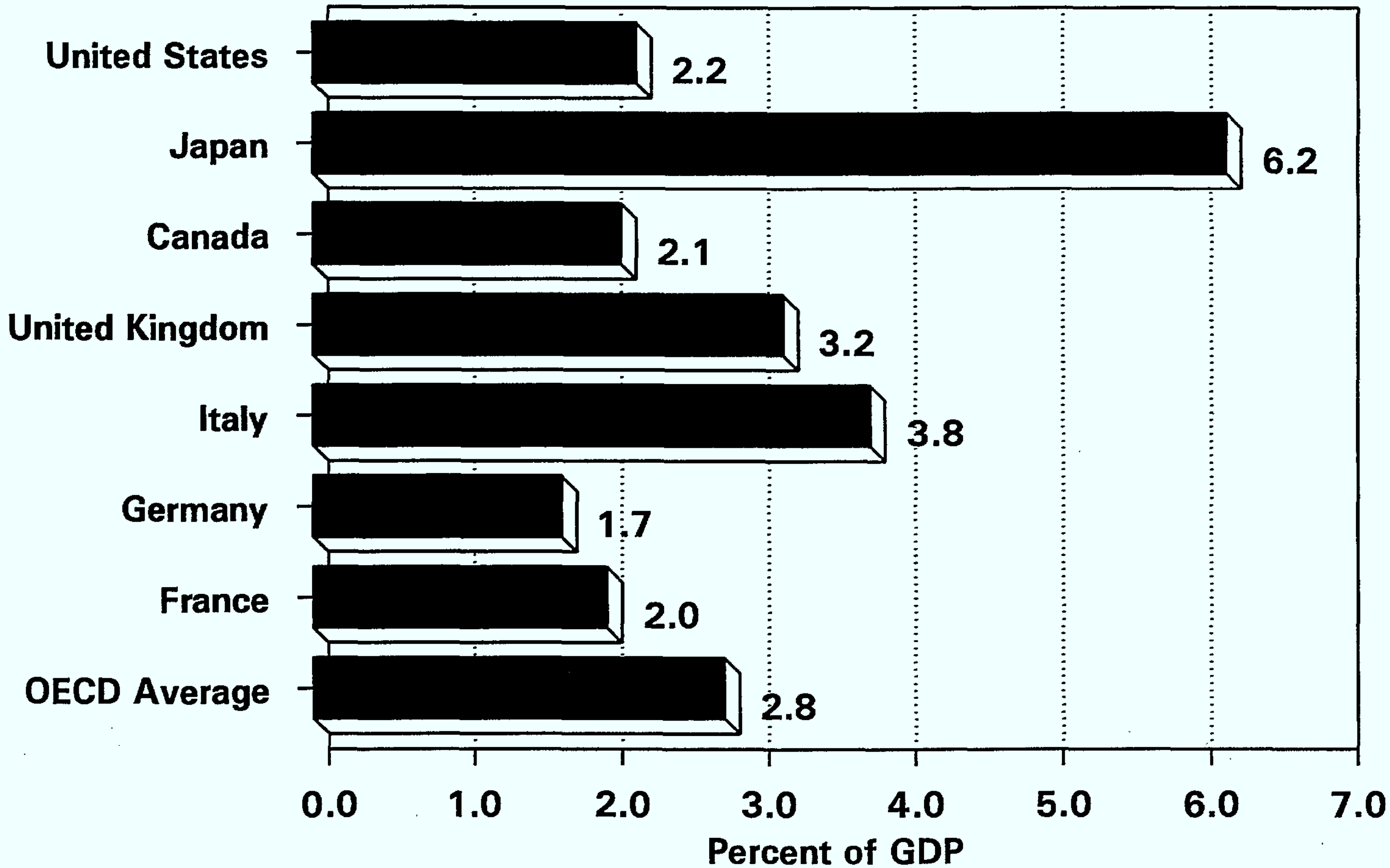
The figures and charts referred to above reflect the most recent data published by the Organization for Economic Cooperation and Development (OECD). Nonetheless, this data does not reflect changes contained in the more recent 1992 and 1993 Canadian federal and provincial Budgets. For example, the federal statutory income tax rate on corporate manufacturing and processing profits in Canada has been reduced by 1% to 22.8% (including surtax), effective January 1, 1993 and is to be reduced by a further 1% to 21.8%, as of January 1, 1994. Additionally, the Canadian Government has proposed negotiations with other countries, including the U.S., which, if successful, will reduce the rate of withholding taxes on direct dividends paid to U.S. and other foreign investors from 10% to 5%. These and other changes will operate to further reduce effective corporate tax rates in Canada.

Chart 1
MAJOR TAX REVENUE SOURCES, 1991



source: OECD Revenue Statistics

Chart 2
G-7 CORPORATE INCOME TAX BURDENS 1991



source: OECD Revenue Statistics

PART 2

CANADA - UNITED STATES

KEY CORPORATE INCOME TAX MEASURES

1994

August 1993

KEY INGREDIENTS OF FEDERAL CORPORATE INCOME TAX SYSTEM

	Canada	United States
TAX RATES - FEDERAL	- Manufacturing business 22.8%[1] - Other business sectors 28.8% - Small business 12.8%[2] - The above rates include a 10% federal abatement for provincial taxes and a federal surtax of 3% 1 *Scheduled to decrease to 21.8% on Jan. 1, 1994* 2 *Applies to the first $200,000 of taxable income*	- General rate of 34% (both manufacturing and other business sectors), rate of 35% on taxable income of $10 million or more - Graduated rates: - up to $50 000 15% - $50 000 to $75 000 25% - $75 000 to $10 million 34% - in excess of $10 million 35% - The benefit of the lower tax rates is completely clawed-back at $335 000 (rate of 39% between $100 000 and $335 000) - The benefit of the 34% rate is completely clawed-back at $18.33 million (rate of 38% between $15 million and $18.33 million)
COMBINED TAX RATES - FEDERAL / PROVINCIAL-TERRITORIAL, FEDERAL / STATE	- Manufacturing business 25.3% to 39.8%[3] - Other business sectors 37.7% to 45.8% - Small busineses 12.8%[4] to 22.8% - Average Combined Rate (gen.) 43.8% - Average Combined Rate (mfg.) 35.3% - Includes federal surtax of 3% 3 *Rates will decline in line with federal tax rate changes* 4 *Reflects the temporary income tax holiday for new small businesses provided by some provinces*	- Rate of 35%[1] to 43.0% (both manufacturing and other business sectors) - Graduated rates for small businesses - Average Combined Rate is about 39% 1 *Reflects the fact that some states use an alternative form of taxation in place of corporate income tax.*

KEY INGREDIENTS OF FEDERAL CORPORATE INCOME TAX SYSTEM

	Canada	United States
DEPRECIATION	- Same formula for all taxpayers - Use mainly declining balance (DB) method - No obligation to claim full amount of depreciation in loss years - Depreciation begins at time the asset is available for use (special rules apply) - Write-off for manufacturing machinery and equipment acquired after Feb. 25, 1992 is 30% DB	- Choice of formula - Most generous method of depreciation uses the double declining balance (200%) method - Obligation to claim full amount of depreciation every year - Depreciation begins at time the asset is placed in service - Most manufacturing machinery and equipment is written-off over 7 years

INVESTMENT TAX CREDIT	- No general investment tax credit. Temporary investment tax credit at a rate of 10% for machinery and equipment acquired by small business from Dec. 2, 1992 to end of 1993
	- Regional development investment tax credit
	- Rates:
	  - Atlantic Canada: 15%, 30% and 35%
	  - Remainder of the country:
	    - Economically deprived regions 30%
	    - Metropolitan areas 0%
	- Partly refundable for small business
	- Reduces base for depreciation
	- No limitation on the amount of income tax liability that can be offset by investment tax credits in a year for tax years beginning after 1993.
	- 3-year carryback
	- 10-year carryforward
		- No general investment tax credit
		- Rehabilitation credit for restoration of historic sites; energy investment credit for qualified alternative energy property; reforestation investment credit
		- 75% limitation on the amount of income tax liability in excess of $25 000 that can be offset by invesment tax credits in a year
		- 3-year carryback
		15-year carryforward

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KEY INGREDIENTS OF FEDERAL CORPORATE INCOME TAX SYSTEM

	Canada	United States

RESEARCH AND DEVELOPMENT EXPENDITURES AND TAX CREDIT	EXPENDITURES:
	- Most current and capital expenditures are written off over one year (except general purpose buildings)
	
	TAX CREDIT:
	- Rates:
	  - large firms 20%
	  - small firms 35%
	  - large firms (Atlantic Canada) 30%
	- Tax credit applicable to most capital and non-capital portions of R&D excluding general purpose buildings and used equipment
	- Tax credit for current (non-capital) expenditures by small firms is 100% refundable on first $2 million expenditures annually
	- Tax credit for expenditures by large firms is <u>not</u> refundable
		EXPENDITURES:
		- Two treatments that taxpayer can elect:
		a) currently deduct non-capital expenditures,
		b) write-off capital expenditures over 5 years regardless of determinable useful life (the taxpayer can, however, choose not to elect R&D treatment and write-off capital equipment over its determinable useful life under the general capitalization provisions)
		
		TAX CREDIT:
		- Tax credit of 20% on incremental R&D expenditures only
		- Not refundable
		- Credit applies to non-capital portion of R&D expenditures only

INVENTORY	- first-in, first-out (FIFO) accounting	- Choice of accounting formula
		  - last-in, first-out (LIFO) with a simplified calculation for small business, provided the LIFO method conforms with financial statements
		  - first-in, first-out (FIFO)

CAPITAL GAINS	- Corporation:
	  - 25.0% of gain excluded from taxable income
	- Individual:
	  - $100 000 lifetime exemption
	  - $500 000 exemption on shares of small businesses
	  - no lifetime exemption on real estate (except principal residences)
		- Corporation:
		  - Same corporate rate as other income
		- Individual:
		  - 50 percent exemption for small business stock held for more than 5 years, to a maximum of 10 times the basis of the stock or $10 million, whichever is greater
		  - otherwise taxed as normal income, no exclusion, effective tax rate cannot exceed 28%

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KEY INGREDIENTS OF FEDERAL CORPORATE INCOME TAX SYSTEM

	Canada	United States
CARRYING OPERATING LOSSES	- 3 years back - 7 years forward (Lower operating losses due to no obligation to claim depreciation each year)	- 3 years back - 15 years forward (Higher operating losses because of obligation to claim full amount of depreciation each year)
EXPORT TAX INCENTIVE	- No	- Yes. Foreign Sales Corporation (FSC)
PROVINCIAL / STATE INCOME TAXES	- Not deductible (A federal tax abatement of 10% is given for provincial taxes)	- Deductible
BUSINESS MEALS AND ENTERTAINMENT EXPENSES	- 80% deductible	- 50% deductible
LIMITED PARTNERSHIPS	- Losses flow through to partners - Losses limited to amount at risk - Losses or investment tax credits relating to research and development denied in the hands of limited partners	- Losses flow through to partners - Losses limited to amount at risk
INTEREST INCOME AND DIVIDENDS PAID TO INDIVIDUALS	- Interest income taxed at normal rates - Special tax treatment of dividends paid to individuals (see corporate / personal income integration below)	- Interest and dividends taxed at normal rates
CORPORATE / PERSONAL INCOME INTEGRATION FOR DIVIDENDS	- Yes (Almost entirely for small closely held businesses and partially for other businesses) - Dividend tax credit for dividends paid to individuals - attempts to equalize the combined corporate/personal tax rate paid on distributed profits to the top personal tax rate paid on wages or salary	- No (Special Status (S) corporations, however, are taxed like partnerships, with all income taxed at the personal level)

KEY INGREDIENTS OF FEDERAL CORPORATE INCOME TAX SYSTEM

	Canada	United States
GROUP TAXATION	- Not permitted	- Permitted (Consolidated federal income tax return)
MINIMUM TAX	- No	- Yes, Alternative Minimum Tax (AMT) - 20% of alternative minimum taxable income (AMTI) above a threshold of $40 000 of AMTI; exemption is clawed-back beginning with AMTI of $150 000; completely clawed-back with AMTI of $310 000
ACCUMULATED EARNINGS TAX	- No	- Yes
CHARITABLE CONTRIBUTIONS	- Deducted up to 20% of net income	- Deducted up to 10% of taxable income
FOREIGN TAX CREDIT	- Yes (Limited to Canadian tax on foreign income)	- Yes (Limited to U.S. tax on foreign income)
INCOME DEDUCTION FOR INTERCORPORATE DIVIDENDS	- 100% deduction from income	- 70-100% deduction from income depending on level of ownership
LARGE CORPORATIONS TAX (LCT)	- Calculated at a rate of 0.2 percent on capital in excess of $10 million employed in Canada by corporations - Payment of the 3% corporate surtax reduces liability for LCT, dollar for dollar	- Not applicable
ENVIRONMENTAL TAX	- No	- Yes (0.12% of AMTI in excess of $2 million)

PART 3

CANADA - UNITED STATES

CORPORATE INCOME TAX RATES

CANADA-UNITED STATES CORPORATE INCOME TAX RATES

Recent changes to corporate income tax systems in Canada and the United States have increased the need for information relating to corporate income tax rates and provisions applicable in the two countries. This section summarizes the combined federal/provincial and federal/state statutory corporate income tax rates.

In Canada, provincial income taxes are not deductible in computing taxable income for federal income tax purposes. However, in the United States, state income taxes are deductible in computing taxable income for federal income tax purposes. Further, some states allow the deduction of federal income taxes in computing taxable income for state income tax purposes. Consequently, when comparing the following schedules, it is important to note that the effective combined state and federal income tax rates, taking into account the deductibility of income taxes, is lower than the direct addition of state and federal income tax rates.

The computation of taxable income used by some U.S. states and some Canadian provinces differs from the corresponding federal computation. As a result, the combining of the federal and state/provincial income tax rates, as reflected in the attached schedules, does not in all cases produce a precise effective income tax rate. Also, the attached schedules do not incorporate other taxes which may be levied in addition to, or in place of, a corporate income tax.

CORPORATE INCOME TAX RATES

CANADA

(Effective from January 1, 1992 to December 31, 1992)

PROVINCE	PROVINCIAL TAX RATES		FEDERAL TAX RATES[1]			TOP COMBINED PROVINCIAL/FEDERAL TAX RATES		
	Small Business	Large Business	Small Business	Large Business		Small Business	Large Business	
			All Sectors	Mfg.	Non-Mfg.	All Sectors	Mfg.	Non-Mfg.
Newfoundland[2]	0.0 / 10.0	17.0	12.8	23.8	28.8	22.8	40.8	45.8
Nova Scotia[2]	0.0 / 5.0	16.0	"	"	"	17.8	39.8	44.8
Prince Edward Island	10.0	15.0	"	"	"	22.8	38.8	43.8
New Brunswick	9.0	17.0	"	"	"	21.8	40.8	45.8
Quebec[2,5]	0.0 / 5.75	8.9	"	"	"	18.6	32.7	37.7
Ontario[4]	9.5[6]	15.5 (14.5 mfg.)	"	"	"	22.3	38.3	44.3
Manitoba[3]	0.0 / 10.0	17.0	"	"	"	22.8	40.8	45.8
Saskatchewan[2,5]	0.0 / 9.0	17.0	"	"	"	21.8	40.8	45.8
Alberta[5]	6.0	15.5 (15.0 mfg.)	"	"	"	18.8	38.8	44.3
British Columbia	10.0	16.0	"	"	"	22.8	39.8	44.8
Yukon	5.0 (2.5 mfg.)	10.0 (2.5 mfg.)	"	"	"	17.8 (15.3 mfg.)	26.3	38.8
Northwest Territories	5.0	12.0	"	"	"	17.8	35.8	40.8

[1]Including temporary surtax of 3 percent.
[2]Provides corporate income tax holidays of various durations for small business start-ups - to be phased-out in some provinces.
[3]Provides one-year tax holiday plus graduated corporate income tax rates for small companies incorporated before 1993.
[4]Small business rate effective April 30, 1992.
[5]Effective July 1, 1992.
[6]The benefit of the lower tax rate is reduced when taxable income exceeds $200,000 and is completely eliminated when taxable income exceeds $500,000.

CORPORATE INCOME TAX RATES

CANADA

(Effective from January 1, 1993 to December 31, 1993)

PROVINCE	PROVINCIAL TAX RATES		FEDERAL TAX RATES[1]			TOP COMBINED PROVINCIAL/FEDERAL TAX RATES		
	Small Business	Large Business	Small Business	Large Business		Small Business	Large Business	
			All Sectors	Mfg.	Non-Mfg.	All Sectors	Mfg.	Non-Mfg.
Newfoundland[2]	0.0 / 5.0	16.0 (7.5 mfg.)	12.8	22.8	28.8	17.8	30.3	44.8
Nova Scotia[2]	0.0 / 5.0	16.0	"	"	"	17.8	38.8	44.8
Prince Edward Island	7.5	15.0 (7.5 mfg.)	"	"	"	20.3	30.3	43.8
New Brunswick	9.0	17.0	"	"	"	21.8	39.8	45.8
Quebec[2]	0.0 / 5.75	8.9	"	"	"	18.6	31.7	37.7
Ontario	9.5[5]	15.5 (13.5 mfg.)	"	"	"	22.3	36.3	44.3
Manitoba[3]	0.0 / 10.0	17.0	"	"	"	22.8	39.8	45.8
Saskatchewan[2]	0.0 / 9.0	17.0	"	"	"	21.8	39.8	45.8
Alberta	6.0	15.5 (14.5 mfg.)	"	"	"	18.8	37.3	44.3
British Columbia	10.0	16.5[4]	"	"	"	22.8	39.3	45.3
Yukon	6.0 (2.5 mfg.)	13.0 (2.5 mfg.)	"	"	"	18.8 (15.3 mfg.)	25.3	41.8
Northwest Territories	5.0	12.0	"	"	"	17.8	34.8	40.8

[1]Including temporary surtax of 3 percent.
[2]Provides corporate income tax holidays of various durations for small business start-ups - to be phased-out in some provinces.
[3]Provides one year tax holiday plus graduated corporate income tax rates for small companies incorporated before 1993.
[4]Effective July 1, 1993.
[5]The benefit of the lower tax rate is reduced when taxable income exceeds $200,000 and is completely eliminated when taxable income exceeds $500,000.

CORPORATE INCOME TAX RATES

CANADA

(Effective from January 1, 1994)

PROVINCE	PROVINCIAL TAX RATES		FEDERAL TAX RATES[1]			TOP COMBINED PROVINCIAL/FEDERAL TAX RATES		
	Small Business	Large Business	Small Business	Large Business		Small Business	Large Business	
			All Sectors	Mfg.	Non-Mfg.	All Sectors	Mfg.	Non-Mfg.
Newfoundland[2]	0.0 / 5.0	16.0 (7.5 mfg.)	12.8	21.8	28.8	17.8	29.3	44.8
Nova Scotia[2]	0.0 / 5.0	16.0	"	"	"	17.8	37.8	44.8
Prince Edward Island	7.5	15.0 (7.5 mfg.)	"	"	"	20.3	29.3	43.8
New Brunswick	9.0	17.0	"	"	"	21.8	38.8	45.8
Quebec[2]	0.0 / 5.75	8.9	"	"	"	18.6	30.7	37.7
Ontario	9.5[3]	15.5 (13.5 mfg.)	"	"	"	22.3	35.3	44.3
Manitoba	10.0	17.0	"	"	"	22.8	38.8	45.8
Saskatchewan[2]	0.0 / 8.5	17.0	"	"	"	21.3	38.8	45.8
Alberta	6.0	15.5 (14.5 mfg.)	"	"	"	18.8	36.3	44.3
British Columbia	10.0	16.5	"	"	"	22.8	38.3	45.3
Yukon	6.0 (2.5 mfg.)	15.0 (2.5 mfg.)	"	"	"	18.8 (15.3 mfg.)	24.3	43.8
Northwest Territories	5.0	12.0	"	"	"	17.8	33.8	40.8

[1]Including temporary surtax of 3 percent.
[2]Provides corporate income tax holidays of various durations for small business start-ups - to be phased-out in some provinces.
[3]The benefit of the lower tax rate is reduced when taxable income exceeds $200,000 and is completely eliminated when taxable income exceeds $500,000.

CORPORATE INCOME TAX RATES

UNITED STATES

(Effective from October 1, 1992)

STATE	STATE TAX RATES	FEDERAL TAX RATES[1]	TOP COMBINED STATE/FEDERAL TAX RATES[2]
Alabama	5.0	graduated 15.0 - 35.0	36.5*
Alaska	graduated 1.0 - 9.4	"	41.1
Arizona	9.3	"	37.8*
Arkansas	graduated 1.0 - 6.5	"	39.2
California	9.3	"	41.0
Colorado	5.0 on 1st $50,000 of net income 5.1 on excess (falling to 5.0 on July 1, 1993)	"	38.3
Connecticut	11.5	"	42.5
Delaware	8.7	"	40.7
District of Columbia	10.0 (plus 2.5 surtax)	"	41.7
Florida	5.5	"	38.6
Georgia	6.0	"	38.9
Hawaii	graduated 4.4 - 6.4	"	39.2
Idaho	8.0	"	40.2

[1]Effective from January 1, 1993
[2]Top combined state/federal tax rate after deducting state taxes in computing taxable income for federal tax purposes.
*Federal taxes are deducted in computing taxable income for state tax purposes.

- All surtaxes are calculated as a percentage of basic tax liability unless otherwise stated.

CORPORATE INCOME TAX RATES

UNITED STATES

(Effective from October 1, 1992)

STATE	STATE TAX RATES	FEDERAL TAX RATES[1]	TOP COMBINED STATE/FEDERAL TAX RATES[2]
Illinois	4.8 before June 30, 1993 and 4.4 after (plus supplemental income tax at 2.5)	graduated 15.0 - 35.0	39.7
Indiana	3.4 (plus supplemental net income tax at 4.5)	"	40.1
Iowa	graduated 6.0 - 12.0	"	38.6*
Kansas	4.0 (with a 3.35 surtax on taxable income greater than $50 000)	"	37.7
Kentucky	graduated 4.0 - 8.25	"	40.4
Louisiana	graduated 4.0 - 8.0	"	37.4*
Maine[3]	graduated 3.5 - 8.93	"	40.8
Maryland	7.0	"	39.6
Massachusetts	8.33 (plus 14.0 surtax)	"	41.2
Michigan	2.35	"	36.5
Minnesota	9.8	"	41.4
Mississippi	graduated 3.0 - 5.0	"	38.3
Missouri	5.0	"	36.5*

[1]Effective from January 1, 1993.
[2]Top combined state/federal tax rate after deducting state taxes in computing taxable income for federal tax purposes.
[3]A 10 percent surcharge is applied for 1992 only.
*Federal taxes are deducted fully in computing taxable income for state tax purposes.

- All surtaxes are calculated as a percentage of basic tax liability unless otherwise stated.

CORPORATE INCOME TAX RATES

UNITED STATES

(Effective from October 1, 1992)

STATE	STATE TAX RATES	FEDERAL TAX RATES[1]	TOP COMBINED STATE/FEDERAL TAX RATES[2]
Montana	6.75 (plus 4.7 surtax)	graduated 15.0 - 35.0	37.1*
Nebraska	5.58 on first $50 000 of taxable income; 7.81 on taxable income over $50,000	"	40.1
Nevada[3]	N/A	"	35.0
New Hampshire	8.0	"	40.2
New Jersey	9.0 (plus 0.375 surcharge on franchise tax paid until June 30, 1993)	"	40.9
New Mexico	graduated 4.8 - 7.6	"	39.9
New York	9.0 (8.0 on small business) (plus 10.0 surcharge after June 30, 1993)	"	41.4
North Carolina	7.75 (2.0 surtax for 1993)	"	40.1
North Dakota	graduated 3.0 - 10.5	"	38.2*
Ohio	5.1 on first $50 000 8.9 on income above $50 000	"	40.8
Oklahoma	6.0	"	38.9
Oregon	6.6	"	39.3
Pennsylvania	12.25	"	43.0

[1]Effective from January 1, 1993.
[2]Top combined state/federal tax rate after deducting state taxes in computing taxable income for federal tax purposes.
[3]Nevada's tax system is based on a general sales and use tax law.
*Federal taxes are deducted in computing taxable income for state tax purposes.

- All surtaxes are calculated as a percentage of basic tax liability unless otherwise stated.

CORPORATE INCOME TAX RATES

UNITED STATES

(Effective from October 1, 1992)

STATE	STATE TAX RATES	FEDERAL TAX RATES[1]	TOP COMBINED STATE/FEDERAL TAX RATES[2]
Rhode Island	9.0 (11.0 business corportion surtax)	graduated 15.0 - 35.0	41.5
South Carolina	5.0	"	38.3
South Dakota[2]	N/A	"	35.0
Tennessee	6.0	"	38.9
Texas	4.5	"	37.9
Utah	5.0	"	38.3
Vermont	graduated 5.5 - 8.25	"	40.3
Virginia	6.0	"	38.9
Washington[3]	N/A	"	35.0
West Virginia	9.0	"	40.9
Wisconsin	7.9	"	40.1
Wyoming[3]	N/A	"	35.0

[1]Effective from January 1, 1993.
[2]Top combined state/federal tax rate after deducting state taxes in computing taxable income for federal tax purposes.
[3]Tax revenues are based primarily on revenue sources other than corporate income tax.

- All surtaxes are calculated as a percentage of basic tax liability unless otherwise stated.

PART 4

CANADA - UNITED STATES

MISCELLANEOUS CORPORATE TAXES

August 1993

MISCELLANEOUS CORPORATE TAXES

Apart from taxes on income, governments may levy taxes on capital, property or payroll and may impose social security and minimum taxes. Withholding taxes collected from the payor on dividends, interest and royalties paid to recipients outside of the country also increase the cost of doing business.

Phase II of tax reform in Canada introduced the Goods and Services Tax (GST) which replaced the Manufacturers' Sales Tax, effective January 1, 1991. The GST is a multi-stage tax on personal consumption that is charged at the rate of 7% on most goods and services sold in Canada. While businesses throughout the production and distribution chain, including retailers, collect the tax on their domestic sales, they are entitled to claim a full refundable credit for any GST paid on purchases of goods and services used in the course of doing business. GST is not collected on export sales.

The tables and charts presented in this section provide some insight into a number of other significant taxes which are levied in Canada and the U.S. on corporations. Comparisons of these taxes cannot be readily made due to differences in how the tax bases for these taxes are calculated.

August 1993

LOCAL TAXES

In Canada, only the federal and provincial governments have the authority to levy income taxes. In the U.S., on the other hand, local governments have the constitutional power to impose income taxes. The following U.S. cities have enacted corporate income taxes.

City	Rate
Akron, Ohio	2.00%
Cincinnati, Ohio	2.10%
Cleveland, Ohio	2.00%
Columbus, Ohio	2.00%
Dayton, Ohio	2.25%
Detroit, Mich.	2.00%
Flint, Mich.	1.00%
Grand Rapids, Mich.	1.00%
Kansas City, Mo.	1.00%
Lansing, Mich.	1.00%
Lexington, Ky.	2.00%
Louisville, Ky.	2.20%
New York, NY	8.85%
Philadelphia, Pa.	4.96%
Pittsburgh, Pa.	1.00%
Portland, Ore.	1.46%
St. Louis, Mo.	1.00%
Toledo, Ohio	2.25%
Youngstown, NY	2.00%

Rates in effect as of October 31, 1992.

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CAPITAL TAXES

As outlined in Part 2 of this comparison, the federal government in Canada imposes a tax on the capital of large corporations (Large Corporations Tax). Payment of the 3% corporate surtax in Canada on business profits reduces liability for the Large Corporations Tax, on a dollar for dollar basis. Capital taxes of various forms are also commonly used by Canadian provinces and U.S. states. The following lists those provinces and states which impose capital taxes.

Canadian Provinces

British Columbia, Alberta*, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick*, Nova Scotia*, Newfoundland*, Prince Edward Island*

U.S. States

Alabama, Arkansas, Delaware, Georgia, Illinois, Kansas, Kentucky, Louisiana, Maryland*, Mississippi, Missouri, Nebraska, New Hampshire, New Mexico, North Carolina, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Tennesee, Texas, Virginia, Washington, West Virginia, Wyoming

Tax rates have not been included due to the fact that vastly different methods are used to calculate capital taxes, with the result that any general comparisons may be misleading.

* denotes capital tax on financial institutions only

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MINIMUM TAXES

The use of a parallel tax calculation system in order to ensure that corporations pay a minimum level of income tax exists in the U.S. federal tax system in the form of the Alternative Minimum Tax (AMT). While the Canadian federal government imposes a similar tax on individuals, no such tax exists for corporations. At the date of publication, no Canadian province imposes a minimum tax on corporations. However, the province of Ontario recently announced its plan to implement a corporate minimum tax effective January 1, 1994. Several U.S. states levy a structured minimum tax, similar to the federal AMT. These states are as follows:

Alaska
California
Connecticut
Florida
Iowa
Maine
Minnesota
North Dakota

Several other states levy a more simplified minimum tax. These states are listed below. However, it should be noted that in most cases the amount to be paid is small and often the tax is only symbolic.

Arizona
Colorado
District of Columbia
Idaho
Massachusets
Montana
New Jersey
New York
Ohio
Oregon
Rhode Island
Utah
Vermont

WITHHOLDING TAXES

When profits, interest payments and royalties are sent out of the country in which they were earned, that country generally withholds a certain percentage of the amount repatriated as a tax. The level of this withholding tax can have an affect on where a multinational sources its production, as the tax often increases the net cost of these production activities to the foreign-owned parent company.

The following table presents the withholding tax rates that are in effect in Canada and the U.S. under existing reciprocal tax treaties with major industrialized countries, as of July 1, 1993.

Canada

	Dividends*	Interest	Royalties
France	10	10	10
Germany	15	15	10
Italy	15	15	10
Japan	10	10	10
Netherlands**	5	10	10
Sweden	15	15	10
Switzerland	15	15	10
U.K.	10	10	10
U.S.	10	15	10

United States

	Dividends	Interest	Royalties
France	5	0	5
Germany	5	0	0
Italy	5/10	15	5/8/10
Japan	10	10	10
Netherlands	5	0	0
Sweden	5	0	0
Switzerland	5	5	0
U.K.	5	0	0
Canada	10	15	10

*The 1992 federal budget announced the Canadian government's intention to negotiate with other countries to lower its withholding tax rate on dividends to 5 percent.

**A new agreement signed on March 4, 1993 reduced the withholding tax on direct dividends from 10 percent to 5 percent. The lower withholding tax on dividends in Canada paid to Dutch investors will be phased in over 5 years, with a 9 percent rate effective January 1, 1993. The phase-in of the lower rate will operate only for dividends flowing from Canada to the Netherlands. The rate for direct dividends in the Netherlands paid to Canadian investors is now 5 percent.