Canada’s System of International Taxation: A Look Back and a Look Forward

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Abstract
This article reviews some aspects of the Canadian international tax system that existed in 1987 and were reviewed by the Advisory Panel on Canada's System of International Taxation in 2008. The author presents an overview of the recommendations in the advisory panel report and describes the Canadian government’s response, in the form of legislative changes. The article concludes with a look forward to what might be the key international issues in the near term and provides some comments on how things may be different in the tax policy area in the future.

Keywords: INTERNATIONAL TAXATION ■ COMPETITION ■ FOREIGN AFFILIATES ■ THIN CAPITALIZATION ■ SURPLUS ■ DEBT

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INTRODUCTION

In the March 2007 federal budget, Finance Minister Jim Flaherty announced the government's intention to appoint an advisory panel with a mandate to examine Canada’s system of international taxation and identify opportunities for its improvement.1 The panel was established later that year and delivered its final report in December 2008.2 In the interim, the government embarked on an “anti-tax-haven initiative,” resulting in the enactment of new measures to restrict the deductibility of interest expense in respect of certain foreign affiliate financing arrangements—so-called double-dip structures—that the government considered to be offensive.3 After receiving the advisory panel’s report, the government introduced a number of important changes to the rules governing the taxation of inbound and outbound foreign investment.

This article takes a look back to the system of international taxation that existed 25 years ago, reviews the advisory panel’s recommendations and the government’s response to date, and looks ahead to what might be the key international tax issues in the future.

CANADA’S INTERNATIONAL TAX SYSTEM IN 1987

The significant features of today’s Canadian international tax system were also in place in 1987. With respect to the taxation of inbound direct investment, the thin capitalization rules that existed at that time were almost identical to the ones we have in place now, except that the permitted debt-to-equity ratio then was 3:1 and the calculation was largely based on beginning-of-year and end-of-year amounts. Today, the debt-to-equity ratio is 1.5:1, and the computation is an average of the monthly debt and equity balances (excluding retained earnings). Although many changes to Canada’s foreign affiliate regime have been made or proposed over the intervening 25 years, and particularly in the last decade, the system has not been reformed, unlike the controlled foreign company regimes in Australia, New Zealand,

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1 Canada, Department of Finance, 2007 Budget, Budget Plan, March 19, 2007, at 419.
3 Canada, Department of Finance, “Canada’s New Government Improves Tax Fairness with Anti-Tax-Haven Initiative,” News Release 2007-041, May 14, 2007. The new interest deductibility measures were enacted as section 18.2 of the Income Tax Act in December 2007, and were to become effective in 2012; however, section 18.2 was subsequently repealed (see the discussion below under “The Government’s Response to the Report”). Unless otherwise stated, statutory references in this article are to the Income Tax Act, RSC 1985, c. 1 (5th Supp.), as amended (herein referred to as “the Act”).
and the United Kingdom. The Canadian system functions on largely the same premise that applied in 1987: exemption from Canadian tax is provided for active business income earned in specific countries. Since 1987, Canada has always taxed passive income on a current basis (such income being determined on a transactional rather than an entity basis). In the mid-1990s, the scope of transactions that would be subject to current taxation was greatly expanded, to include so-called investment business income and base erosion income. In 1987, Canada had 41 tax treaties; today it has 91, as well as 16 tax information exchange agreements (TIEAs). Under many of those 1987 treaties, the rate of withholding tax on dividends, interest, and royalties was reduced to 10 or 15 percent; now, most of Canada’s treaties reduce the withholding tax rate for dividends to 5 percent where a significant portion of the capital is held by the beneficial owner of the dividend, and to 0 percent for royalties in respect of knowhow and computer software.

In 1987, interest was deductible on money borrowed to invest in a foreign affiliate even though the dividends from those investments were likely to be exempt. This rule (along with the recharacterization rule that permitted, in certain circumstances, interest paid by a related non-resident corporation to a foreign affiliate to be excluded from foreign accrual property income (FAPI) and thus be eligible for exempt surplus) would be subject to significant tax policy debate five years later, when the office of the auditor general released its 1992 report criticizing the government for allowing such interest deductions. An article published in the Canadian Tax Journal in 1987 had also discussed the tax policy issues regarding the treatment of interest expense and had proposed rules to restrict deductibility in certain circumstances.

Transfer-pricing arrangements between members of multinational enterprises also came under scrutiny. The December 1987 decision of Federal Court of Appeal in Indalex Ltd. was one of the first transfer-pricing cases in Canada. The notion of the arm’s-length principle was important in that case, and approximately 10 years later, the application of that principle would become a feature of the Canadian statutory tax scheme.

4 In 1987, eligibility for the exemption for active business income earned by a foreign affiliate was in part dependent upon the country being a listed country. This changed in 1996 when eligibility became linked to the income being earned in a country with which Canada had or was expected to have a tax treaty. (Most of the listed countries under the prior rules were in fact treaty countries.)
5 Paragraph 95(2)(a).
8 Indalex Ltd. v. The Queen, [1988] 1 CTC 60 (FCA).
A review of the articles on international taxation published in the *Canadian Tax Journal* in 1987 suggests an increasing need for Canadian tax practitioners to be familiar with developments in other jurisdictions. This is perhaps not surprising, since many businesses at the time were looking to expand and invest in operations abroad.

While the Canadian international rules have remained largely the same over the last 25 years, the most important difference between 1987 and today is the degree to which all of these provisions are now relevant in computing the taxable income of Canadian taxpayers, in terms of both the amounts and the number of taxpayers to which these rules apply. The pressure on the rules dealing with the taxation of international income (for example, the rules for transfer pricing, foreign affiliates, and thin capitalization) to operate effectively, so that the appropriate amount of Canadian income is measured and taxed, is much more significant today than it was in 1987.

**OVERVIEW OF THE ADVISORY PANEL’S REPORT**

The mandate of the advisory panel was “to recommend ways to improve the competitiveness, efficiency and fairness of Canada’s system of international taxation, minimize compliance costs, and facilitate administration and enforcement by the Canada Revenue Agency (CRA).”9 In fulfilling this mandate, the panel was to develop practical and readily applicable changes, taking into account existing rules and tax treaties as well as fiscal implications.10

The advisory panel’s report contained 17 main recommendations (reproduced in the appendix to this article). The panel found that, overall, “the Canadian international tax system is a good one that has served Canada well.”11 Therefore, its recommendations sought to improve the existing system, rather than reform it.

The report also included six principles that the panel believed should guide Canadian tax policy makers in formulating Canada’s international tax policy.12

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9 Advisory panel report, supra note 2, at 1, paragraph 1.4.

10 Ibid., at 2, paragraphs 1.13 and 1.14.

11 Ibid., at 2, paragraph 1.12.

12 The six principles are as follows:

1. Canada’s international tax system for Canadian business investment abroad should be competitive when compared with the tax systems of our major trading partners.
2. Canada’s international tax system should seek to treat foreign investors in a way that is similar to domestic investors, while ensuring that Canadian-source income is properly measured and taxed.
3. Canada’s international tax system should include appropriate safeguards to protect the Canadian tax base.
4. Canada’s international tax rules should be straightforward to understand, comply with, administer and enforce, to the benefit of both taxpayers and the CRA.
5. Full consultation should precede any significant change to Canada’s international tax system.
6. Canada’s international tax system should be benchmarked regularly against the tax systems of our major trading partners.

Ibid., at 11, paragraph 3.3.
THE GOVERNMENT’S RESPONSE TO THE REPORT

The actions taken by the government in response to the advisory panel’s recommendations are summarized in the appendix to this article. A fuller discussion is presented below.

Initial Response

The government’s first response to the panel’s report was (1) to repeal section 18.2, which targeted double-dip financing structures, and (2) to abandon the foreign investment entity regime that had originally been proposed in 1999. The rules regarding non-resident trusts were ultimately modified, but not in a way that substantially changed the tax policy principles underlying the regime. The action taken by the government regarding these issues reversed or significantly altered the direction of what would otherwise have been a shift in Canada’s tax policy in this area (at least as compared with the 1987 system).

In the March 2010 budget, the government announced changes that narrowed the definition of “taxable Canadian property,”13 and consequently the circumstances in which a taxpayer needed to obtain a clearance certificate in order to reduce the withholding tax obligation on the sale of shares.

The tax policy issues regarding section 18.2 are essentially the same as the issues that were debated subsequent to the 1992 auditor general’s report. The debate regarding interest deductibility to invest in foreign affiliates will likely come up again in the next 25 years, simply because it is a significant international tax policy issue that is of great interest to tax policy developers, the academic community, and the business community.

Measures Relating to Upstream Loans, Hybrid Surplus, and Foreign Affiliate Dumping

The government has enacted or proposed significant changes in the following areas:

- new rules regarding the treatment of loans made by foreign affiliates to Canadian corporate shareholders (or to persons not dealing at arm’s length with such shareholders) (referred to as the “upstream loan” rules);14
- creation of a new “hybrid surplus” account;15 and
- new rules regarding “foreign affiliate dumping.”16

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13 Subsection 248(1).
14 Proposed subsections 90(6) to (15).
15 See the definition of “hybrid surplus” in regulation 5907(1).
16 See section 212.3.
Upstream Loans and Hybrid Surplus

The August 2011 proposals provide an indication of the government’s response to the panel’s recommendation regarding a broader exemption system for active business income. The panel recommended a broader exemption system in part because, under the existing rules, very little Canadian tax was collected on the active business earnings of foreign affiliates. One reason for this is that Canada’s broad treaty network (augmented by a number of TIEAs) has created the possibility for a significant amount of foreign earnings to be eligible for Canada’s exemption system. However, an additional reason is that it was relatively simple in the past to repatriate funds to Canada by using loans if the underlying income was not eligible for the exemption. The CRA had accepted the practice whereby a foreign affiliate could lend funds back to a Canadian shareholder even if those funds were generated from taxable surplus without significant underlying foreign tax. The upstream loan rules now provide that an income inclusion to the Canadian shareholder will arise where such loans are made unless certain exceptions are met.

The new hybrid surplus account addressed the issue that arose where surplus was created upon a sale of shares of a foreign affiliate that were excluded property. In these circumstances, half of the gain would give rise to exempt surplus and the other half would be treated as taxable surplus. Since exempt surplus can be distributed before taxable surplus, foreign affiliates could easily defer the repatriation of the taxable surplus. The new hybrid surplus account links the exempt and the taxable portions of a gain realized on the disposition of certain shares that do not give rise to FAPI (which in many instances will be shares that are excluded property), thereby forcing foreign affiliates to repatriate the taxable portion of the gain at the same time as the exempt portion.

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17 Canada, Department of Finance, Legislative Proposals in Respect of Foreign Affiliates (Ottawa: Department of Finance, August 19, 2011). The news release accompanying the upstream loan legislative proposals states:

In its December 2008 report to the Minister of Finance, the Advisory Panel on Canada’s System of International Taxation recommended fundamental changes to Canada’s system of international taxation, particularly in respect of its exemption system for foreign source business income earned by foreign affiliates.

At this time, however, the priority of the Government is to encourage countries to enter into Tax Information Exchange Agreements with Canada and to provide exempt surplus treatment as an incentive to those which choose to do so. The measures released today are aimed at improving the current international tax system, which the Panel characterized as a “good one that has served Canada well.”


19 Subsection 90(4). A key exception that enables a Canadian shareholder to avoid the income inclusion is available where, among other conditions, the amount of the loan could have been paid as a dividend from exempt surplus or from some other surplus account without triggering the incidence of Canadian tax.
These changes suggest that the current government will not be proposing a broader exemption system in the near future, and in fact is more interested in tightening the existing system by improving the integrity of the taxable surplus regime. Whether this will result in additional Canadian tax being collected remains unclear: only one major country in the Organisation for Economic Co-operation and Development (OECD)—the United States—continues to maintain a foreign tax credit system. Perhaps the other countries abandoned the system because they realized that it was not generating the intended tax revenues.

**Foreign Affiliate Dumping**

The panel’s mandate included a request to deal with the issue of debt dumping. In its final report, the panel described one type of transaction—an acquisition of fixed-value preferred shares of a related company by a Canadian subsidiary of a foreign-based multinational—that raised “significant tax policy concerns.”

The new rules in this area address this policy concern and more. In short, these rules treat an investment by a foreign-controlled Canadian corporation in a foreign affiliate, whether financed with borrowed money or with cash on hand, as a deemed dividend paid by the Canadian corporation to its foreign parent. There are some important exceptions that exclude from the application of these rules certain investments in a foreign affiliate, such as loans that bear a sufficient rate of interest and investments that meet the so-called closer connection test.

A review of the approaches used by other countries suggests that the proposals by the government are not generally out of step with international norms. However, there is one aspect of the Canadian rules that appears broader than those in other countries: the foreign affiliate dumping rule will cause a deemed dividend to arise

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20 Advisory panel report, supra note 2, at 67, paragraph 5.51, and the discussion that follows.

21 The closer connection test, contained in subsection 212.3(12), is intended to allow a Canadian subsidiary of a foreign multinational corporation to invest in foreign affiliates in certain circumstances where the Canadian subsidiary is making a strategic acquisition of a business that is more closely connected to its business than to that of any non-resident member of the multinational group. If the investment is undertaken in a way that satisfies the five conditions set out in the legislation, the exception will apply such that a deemed dividend will not arise. It is not easy to determine objectively whether the conditions are met, because they attempt to reflect the decision-making process of a Canadian parent of a multinational group. The issues with the test are not surprising: it is not clear when it will apply, simply because it is difficult to describe the governance and decision-making process of any corporation. It will be difficult for the CRA to confirm with certainty to what extent the conditions have been satisfied (especially when doing so years after the transaction occurred), and it is not clear whether the CRA would rule on the application of the test before a transaction is undertaken.

22 The United States has a similar rule in that it will treat certain share acquisitions, whether financed with debt or cash, as a deemed dividend. For example, if a US subsidiary of a non-US-based multinational acquires the shares of a related non-US corporation, the purchase price will be treated as a deemed dividend from the US subsidiary to the extent of the earnings and profits of the subsidiary. The earnings and profits of a US corporation are, in general terms, the earnings of the corporation computed under US tax principles. This treatment differs from
where a foreign-controlled Canadian subsidiary that has no debt uses its cash to acquire shares of a foreign corporation from a non-arm's-length person.

LOOKING FORWARD

Transfer Pricing

The most important issue that deserves the attention of tax policy makers is transfer pricing. The internal cross-border transactions of multinational companies continue to grow, and this trend will only increase; accordingly, the amount of income that will be subject to transfer-pricing rules can also be expected to increase. The major transfer-pricing issue is uncertainty regarding the application of the arm's-length principle. Currently, it is very difficult for taxpayers to know how to file their tax return so that it will be acceptable to all tax authorities with an interest in a cross-border transaction. The uncertainty regarding an acceptable result for a particular transaction has meant that a significant amount of time and resources is spent by both taxpayers and the Canadian tax authorities in attempting to resolve transfer-pricing disputes.

It is important to not allow the system in Canada to deteriorate to the point where the tax owing by a taxpayer with significant transfer-pricing matters is determined on an ad hoc basis. This is not the basis on which a tax system is supposed to work. An efficient tax system includes a set of rules that can be applied by all taxpayers with a reasonable amount of certainty, so that their tax return can be filed with little expectation of adjustment. This allows for the efficient collection of tax revenue by our government.

the Canadian proposals in that it does not apply to transactions with persons who deal at arm’s length with the acquiror or to loans.

France’s tax rules restrict financial expenses where shares of a French or foreign corporation have been acquired by a French taxpayer and the taxpayer is unable to demonstrate that decisions relating to these shares are effectively made in France, and that the control of or influence over the target is effectively exercised from France. A formula is used to determine whether any interest should be restricted. The formula reflects the assumption that the entire amount of the acquisition was financed with debt and therefore reduces the financial expense by a corresponding amount. For a period of eight years from the acquisition of the French or foreign corporation, the denial of the deduction for financial expenses will not apply if, inter alia, it can be shown that the acquiring company has a lower debt-to-equity ratio than that of the group to which it belongs.

In Sweden, there are no thin capitalization rules. Interest on related-party loans is not generally deductible unless one of the following two conditions is satisfied: (1) the beneficial owner is taxed on the interest income with a tax rate of at least 10 percent and the debt arrangement was not entered into mainly to enable the group to obtain a significant tax benefit; or (2) the debt was established mainly for business reasons and the beneficial owner is in the European Economic Area or in a country with which Sweden has a tax treaty. This second exception has been interpreted narrowly, and it is generally understood that if a taxpayer could have been financed with equity instead of debt, then this business purpose test will be considered to be satisfied. It is also understood that debt incurred to purchase the shares of an affiliated company will not qualify for the business purpose exception.
The biggest step toward relieving the current situation is the OECD’s recent discussion draft regarding safe harbours. The discussion draft essentially proposes using safe harbours for specific situations. The competent authorities of two jurisdictions would agree upon the situations and the safe harbours, and this agreement would be made public through a memorandum of understanding. This is an extremely important initiative because, if implemented, it would end the debate between taxpayers and tax authorities as to what is the appropriate margin for a transaction. It also makes sense, given that the real debate often occurs between two tax authorities, not between the taxpayer and the tax authorities. Once the “right” margin for a particular transaction is made public by the tax authorities, significant volumes of these transactions can be reported, with few additional resources needing to be spent by taxpayers and governments. It is important for governments, with the assistance and feedback of taxpayers, to develop expertise in defining more transactions and situations to which safe harbours can be applied, and then making that consensus public, thereby making it an integral part of the domestic and international tax system.

Thin Capitalization

The government has chosen to retain the existing thin capitalization regime; however, as noted earlier, the debt-to-equity limit for debts owing to specified shareholders has been changed from 2:1 to 1.5:1, and in addition, the thin capitalization rules will now apply to partnerships. The 2013 federal budget extended the thin capitalization rules to branches and trusts.

Withholding Taxes

Withholding taxes on interest, royalties, and dividends have largely been eliminated within Europe, but Canada continues to impose withholding tax on most of these payments, with some exceptions for interest paid to arm’s-length persons and interest paid to residents of the United States. There has not been significant debate regarding Canada’s continued policy to impose withholding taxes, and it does not appear to be a high priority for the government at this time.

Foreign Affiliate Exemption System

As noted earlier, the government has responded to the advisory panel’s recommendation regarding a broader exemption system for active business income by tightening the existing taxable surplus regime. Given the trend, it is not likely that there will be

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any movement any time soon on the recommendation to exempt capital gains on the disposition of shares of foreign affiliates, or any further broadening of the exemption for active business income.

**Consolidation or Tax Grouping**

The final chapter of the advisory panel’s report discusses certain aspects of the Canadian tax system that should be reviewed, but does not make any specific recommendations. One such aspect is the lack of a formal consolidation or tax grouping mechanism in Canada. In November 2010, the government released a consultation paper outlining some of the considerations in designing such a system. Most countries have a formal system that allows taxpayers to balance income among related corporations. While Canada does not have such a formal system, many taxpayers are able to achieve effective income balancing by carrying out transactions that are solely designed for this purpose and are generally accepted by the Canadian tax authorities. A system that formally allows taxpayers to do so would save resources, but may also entail reduced flexibility and additional legislative complexity. This is not something that many taxpayers will willingly accept.

**Patent Box Regimes**

Recently, many countries have adopted regimes to lightly tax income from certain intellectual property (often referred to as “patent box” regimes). The advisory panel’s report touches upon this possibility. Since the release of the report, the Jenkins report on Canada’s scientific research and experimental development tax credit system has been published, recommending a number of changes. The Jenkins report suggested that what Canada lacked was investment in the marketing and commercialization of the product of scientific research. A patent box regime could help in this regard, but at this time the government of Canada has not indicated an interest in pursuing this policy initiative.

**Regulation 105/102 Withholding**

Finally, the advisory panel suggested that Canada’s system for withholding on services rendered in Canada under regulation 105 should be modified to relieve the withholding tax burden, particularly where the income is likely to be exempt under a tax

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25 Canada, Department of Finance, *The Taxation of Corporate Groups: Consultation Paper* (Ottawa: Department of Finance, November 2010).


28 Ibid., at 2-2 and 2-3.
treaty. In June 2011, the CRA introduced some new procedures regarding regulation 102 waivers, but there has been no news regarding regulation 105 waivers.

CONCLUSION

The two most significant issues regarding foreign affiliates involve the exemption system and associated expenses. I do not believe that there will be any significant developments in the short term regarding a broadening of the exemption system as suggested by the advisory panel, without a concomitant discussion of associated expenses such as interest expense. In the long term, these issues will come back to the forefront.

As noted earlier, in my view, it would be a major advancement if tax authorities were to make significant progress on the use of safe harbours for appropriate transactions. This is not only a compliance or enforcement matter, but also an important tax policy matter. Developing appropriate safe harbours will free up resources to deal with more complicated issues such as intangibles and base shifting.

Tax professionals across jurisdictions have long shared significant amounts of information; they have cooperated to assist multinationals in complying with the law and to develop structures that are tax-efficient. The tax enforcement authorities have also shared information, but the impression is that to date such cooperation has been rather limited. I believe we will see an increase in the amount of information shared between tax authorities in the course of conducting their audits.

A significant change to the global international tax environment would occur if tax policy were developed in a coordinated international manner. For example, the international tax environment would be altered dramatically for Canadian businesses if Canada developed its international tax policy in coordination with its significant trading partners, such as the United States. The OECD already provides a forum through which some consultation occurs; however, it does not necessarily lead to coordinated development of tax policy or tax rules.29 I suspect that several hurdles would need to be overcome before coordination would occur on a regular basis. However, given the degree to which businesses are globally integrated, it would only make sense that governments seek some additional form of cooperation where they have common interests. This may be something that we will see more of in the next 25 years.

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## APPENDIX

### Summary of Advisory Panel Recommendations and Related Government Action

<table>
<thead>
<tr>
<th>Panel recommendations</th>
<th>Government action(^a)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Outbound direct investment</strong></td>
<td></td>
</tr>
<tr>
<td>4.1: Broaden the existing exemption system to cover all foreign active business income earned by foreign affiliates.</td>
<td>The upstream loan rules and the creation of a new hybrid surplus account could be viewed as a counterresponse to this recommendation.</td>
</tr>
<tr>
<td>4.2: Pursue tax information exchange agreements (TIEA) on a government-to-government basis without resort to accrual taxation for foreign active business income if a TIEA is not obtained.</td>
<td>None (other than the independent pursuit of TIEAs)</td>
</tr>
<tr>
<td>4.3: Extend the exemption system to capital gains and losses realized on the disposition of shares of a foreign affiliate where the shares derive all or substantially all of their value from active business assets.</td>
<td>See above regarding upstream loan rules and the new hybrid surplus account.</td>
</tr>
<tr>
<td>4.4: Review the “foreign affiliate” definition, taking into account the Panel’s other recommendations on outbound taxation, the approaches of other countries, and the impact of any changes on existing investments.</td>
<td>None.</td>
</tr>
<tr>
<td>4.5: In light of the Panel’s recommendations on outbound taxation, review and undertake consultation on how to reduce overlap and complexity in the anti-deferral regimes while ensuring all foreign passive income is taxed in Canada on a current basis.</td>
<td>Proposals for a foreign investment entity regime have been abandoned and the rules regarding non-resident trusts have been relaxed.</td>
</tr>
<tr>
<td>4.6: Review the scope of the base erosion and investment business rules to ensure they are properly targeted and do not impede bona fide business transactions and the competitiveness of Canadian businesses.</td>
<td>Proposals addressing Canadian banks have been introduced.</td>
</tr>
<tr>
<td>4.7: Impose no additional rules to restrict the deductibility of interest expense of Canadian companies where the borrowed funds are used to invest in foreign affiliates and section 18.2 of the Income Tax Act should be repealed.</td>
<td>Section 18.2 has been repealed.</td>
</tr>
</tbody>
</table>
**Inbound direct investment**

5.1: Retain the current thin capitalization system, and reduce the maximum debt-to-equity ratio under the current thin capitalization rules from 2:1 to 1.5:1.

New rules have been enacted that reduce the maximum debt-to-equity ratio under the existing thin capitalization regime to 1.5:1.

5.2: Extend the scope of the thin capitalization rules to partnerships, trusts and Canadian branches of non-resident corporations.

The new rules extend the scope of the thin capitalization rules to cover partnerships, branches, and trusts.

5.3: Curtail tax-motivated debt-dumping transactions within related corporate groups involving the acquisition, directly or indirectly, by a foreign-controlled Canadian company of an equity interest in a related foreign corporation while ensuring bona fide business transactions are not affected.

Significant new rules have been introduced to deal with investments in foreign affiliates by foreign-controlled Canadian corporations (the foreign affiliate dumping proposals).

**Withholding tax**

6.1: Consider further reducing withholding taxes bilaterally in future tax treaties and protocols to the extent permitted by the government’s fiscal framework and its agenda regarding additional corporate tax rate reductions.

Ongoing.

**Administration, compliance, and legislative process**

7.1: Take immediate action to enhance the dialogue among taxpayers, tax advisors and the Canada Revenue Agency to promote the mutual responsibility and cooperation required to uphold Canada’s self-assessment system.

Ongoing.

7.2: Take steps to improve administration of the transfer pricing rules in resolving disputes, centralizing knowledge for better consistency, and resolving technical issues.

Ongoing.

7.3: Eliminate withholding tax requirements related to services performed and employment functions carried on in Canada where the non-resident certifies the income is exempt from Canadian tax because of a tax treaty.

None.

7.4: Eliminate withholding tax requirements related to the disposition of taxable Canadian property where the non-resident certifies that the gain is exempt from Canadian tax because of a tax treaty.

New rules have been introduced that narrow the scope of property, that is considered taxable Canadian property, thereby relaxing the compliance rules related to dispositions of shares of Canadian corporations.
7.5: Exclude the sale of all publicly traded Canadian securities from notification and withholding requirements under section 116 of the Income Tax Act. See above (rules regarding dispositions of shares of Canadian corporations).

7.6: Develop a comprehensive, long-term plan to optimize tax information collection, and set up the information management systems needed to efficiently process and analyze this information. Ongoing.

a Measures proposed or adopted as at December 31, 2012.