



## Doing Business in Canada

“The Short Guide”

Doing Business in Canada “the Short Guide” is meant as a guide to resources and references for small to large businesses looking to expand their market into Canada

~ Telsec Business Centres



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# Doing Business in Canada

## 1 Introduction

While doing business in Canada is quite similar to doing business in the United States, there are many subtle but critical differences between the two cultures and business environments.

These differences express themselves in obvious ways – such as in tax laws, types of business structures, universal health care and more.

They also manifest themselves in less obvious ways – such as a higher degree of cultural diversity, highly educated consumers, tolerance for vast distances, and a distinct but always respectful separation from our American neighbours.

It is important to understand these distinctions in order to best approach, serve and benefit from Canada's unique business and consumer markets.

This guide strives to outline these differences and offer readers references to all public and business information necessary to open a business in or expand into the Canadian market.

## 2 Canada - The Basics

The first thing to understand about Canada is the contrast between the relatively small populations against the enormity of the country itself. The second largest nation on earth by area, Canada is home to only 36 million people, two million less than the state of California. There are only a handful of large cities in Canada, and most of those are situated within 300 km of the border with the United States.

Canada's relatively small population, which is about 1/10th that of the United States, means it is often overlooked as a consumer market. Prices are slightly higher because the population coupled with the distances between urban centers makes economies of scale more difficult to organize. Because of this, Canada often finds itself slightly behind the United States when new digital and consumer technologies are introduced.

Though Canadians from coast to coast to coast tend to feel a deep kinship with each other, there is a constant undercurrent of rivalry between the six unique regions of the country that historically serve to define and influence Canada's political and economic evolution. Canada's six regions are Atlantic Canada, Quebec, Ontario, the Prairies, British Columbia and the far north.

To one degree or another, each region has unique cultures, economic drivers, social conditions and social challenges. Despite these differences, there is a high degree of

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personal mobility between provinces, especially in Alberta where Canadians from across the country work in the vast oil-sands projects.

Canada's largest city, Toronto, anchors a metropolitan area with a population of 6 million, or one out of six Canadians. Toronto is currently experiencing a decade-long surge in real estate prices. Toronto is the financial capital of Canada. It is also home to the largest arts and entertainment businesses, and is considered one of the best cities in the world to do business in and from.

The second largest city, Montreal, is known as the second largest French-language speaking city on Earth, and is arguably Canada's most stylish and romantic city. It is also one of the oldest cities in North America, with a history stretching back to the 16<sup>th</sup> century.

Vancouver is Canada's largest port city and a busy gateway to the Pacific and Asian markets. Like Toronto, Vancouver is experiencing a real estate boom that has pushed home and rental prices far higher than any other part of Canada.

Canada is a highly advanced, urban nation. The majority of adults have post-secondary education and are incredibly open, accepting people. Perhaps the biggest and most noticeable difference between Canadians and Americans is the Canadian self-deprecating sense of ironic humour. This often masks a sense of how small Canada is compared to its much larger neighbour.

## 3 Why international expansion should start in Canada

For U.S.-based companies, countries like India, China and Asia with large populations and huge perceived markets are often the first choices for international expansion. However, the more logical country to expand businesses internationally is Canada, which led the G7 countries in economic growth from 2003 to 2012 and is recognized by the U.S. Census Bureau as the [#1 trading partner of the USA](#) - not to mention the \$38 trillion in its combined gross domestic product, 80% of the population living in urban areas, and 90% living within 100 miles of the U.S. border. All these positive Canadian market characteristics and the following make Canada a prime country for expansion:

- Geographic proximity and connected transportation infrastructure for better logistics
- Common language and legal system
- Consumer income and spending habits similar to the USA
- More aware of U.S. brands
- Lower input costs due to weak Canadian currency and proximity to raw materials

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## 3.1 Logistics

Canada and the United States share the world's longest undefended border. With the majority of its population living within 100 miles of the U.S. border, the transportation and immigration infrastructure between the two countries is extremely well developed. For businesses, this often means servicing the new market is far easier and less expensive. For example, importers might not require warehouses or other "in-house" business services because these can be provided by that business's current infrastructure and charged back to the Canadian branch office.

All major transportation systems in Canada and the USA are naturally connected because of the enormous volume of cross-border traffic, goods and services moving between the two countries.

## 3.2 Common language and legal systems

Other than rural Quebec and a few isolated regions in the Atlantic Provinces where French is the main language spoken, most Canadians speak English, or are fluent in both English and French. The vast majority of people in Quebec are bilingual. One difference between the two nations is seen in how Canadians tend to follow the British conventions on spelling and grammar, while the United States has evolved its own unique version of the English language. Another is Canada's use of the metric system for measurements.

The U.S. and Canada also have very similar legal systems. Business, employment and civil law in both countries are based on similar principles from British Common Law. American businesses opening in Canada will not face a steep learning curve or require a change of business practices over Canadian laws.

For the most part, Canadian and American consumers are very similar. Changes needed to the business culture of the branch office and the way products are delivered, warehoused and presented are less problematic than when you expand into markets with divergent cultures and different languages.

## 3.3 Canadian consumers and awareness of U.S. brands

Canadian consumer incomes and spending habits are more similar to those of U.S. consumers than almost any other country because of similarities in culture and values. Canadians are avid consumers of American media and have a wide knowledge and understanding of American culture and consumer products. Due to cross-border media broadcasting and large portions of the Canadian population living in close proximity to the U.S., there is also more awareness of American brands in Canada. Many, if not most, product brands can be found on both sides of the border. The similarities between Canadian and U.S. consumers can provide insights into new products, improving current products, or finding new uses for existing products. Canadians also welcome a wider variety of options and brands to choose from.

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There are other differences between the two countries. Canadian consumers are often moved by different motivators compared to their American counterparts. International expansion is sometimes not successful because a business did not understand how to market to consumers who are motivated by different purchasing values. For large chain or franchise businesses, the Canadian environment is defined by distance. It is more expensive to source and supply businesses located in different urban areas because those places are frequently quite far from each other.

### **3.4 Currency and proximity to raw materials provide lower input costs**

Canada's currency is heavily influenced by the price of oil, so currently and for some time in the future, U.S. dollars are worth considerably more than their face value in the Canadian market. Most often, you can buy any equipment required for expansion in the U.S. at better prices in Canada.

As it has the second largest landmass of any nation on Earth, Canada is one of the world's resource giants. Virtually every precious metal, many rare-earth elements and other raw natural resources are mined or harvested in Canada. Consequently, the Toronto Stock Exchange is the world leader in mining, resource and energy investment.

In many industries, Canadian workers do not receive as much pay, so there is an opportunity to hire knowledgeable staff at a lower rate, thus substantially reducing input

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costs. This pay disparity is felt at all levels of business operations, but is especially notable in the take-home pay and benefits for CEOs and other business leaders, which tend to be far more equitable than those of their American counterparts.

Canada is famous for providing all citizens with universal health care. This presents a massive benefit for companies expanding into Canada as it relieves the business of a significant expense faced by businesses in the United States. Canadian businesses often offer insurance packages offering extended coverage over items such as dental and eye care, massage and physiotherapy, and corrective devices such as orthotics and hearing aids.

### 3.5 Why establish your branch office or Expansion in Toronto?

Toronto is an extraordinarily interesting city with a sense of potential you can feel. The fourth largest city in North America, Toronto anchors a metropolitan area that wraps around the northern and western shores of Lake Ontario. The region supports a population of nearly 8 million people. One out of every five Canadians lives in or around Toronto. Considered the most multicultural city on the planet, Toronto was named the 8th safest city by the Economist Intelligence Unit. It was also considered the “Most Livable City on Earth in 2015” by The Economist magazine, a view shared in different surveys conducted by Metropolis magazine and Price Waterhouse Cooper.



*Toronto Harbour with the world-famous CN Tower (left) rising 553.33 metres (or 1,815 ft. 5 in.).*

Toronto was named the world's eighth most important financial centre and the second most important North American financial centre (after New York). Toronto is the financial center of Canada and is recognized as one of the most important financial centers in the world. The city's gross domestic product was estimated at \$323 billion in

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2014.

Home to three major universities, dozens of technical and community colleges, and numerous public and private research centres, Toronto boasts a highly educated and skilled workforce. The city is a hub of business-to-business and business-to consumer activities.

Recently, a number of American businesses have been moving to (or opening offices in) Toronto – taking advantage of a low-cost dollar, a highly skilled and educated workforce, legal and/or financial benefits, and the numerous supports offered to business directly or indirectly by various levels of government. Toronto is also home to the headquarters for many international financial institutions and branch offices for international brands and corporations.

The University of Toronto, York University and Toronto's many community colleges provide a well-trained workforce in many disciplines. From a logistics point of view, Toronto's proximity to the "Golden Horseshoe" industrial manufacturing area, its short distance from the U.S. border, and its proximity to both the New York and Michigan border crossings, make it an excellent location for a branch office. Toronto is also a major hub for national and international travel, with Toronto's Pearson International Airport providing air travel, as well as many newly renovated train stations and highways providing access to all regions of Canada and North America.

Looking forward, Toronto is becoming one of the most productive and creative cities in North America. From a burgeoning film and arts industry to one of the most innovative tech start-up cultures on earth, to the city's proximity to the Kitchener, Guelph, London technology and 'research triangle', Toronto continues to prosper and grow.

The City of Toronto goes out of its way to support and foster a strong business environment across dozens of sectors. The city's relative proximity to other urban and financial centers makes it a natural, central base for larger businesses. Smaller businesses, consultancies, and start-ups will find an unending source of potential clients serving the business sector in Toronto.

The City itself has several programs designed to help small businesses. One such program is [Enterprise Toronto](#) – a one-stop source of information and advice for businesses. A free service, Enterprise Toronto consists of a team of small business advisors offering business planning and coaching, assistance with registration and licensing, long-term guidance, and access to business networking opportunities.

Toronto offers a number of other direct and helpful sources of assistance for small businesses, entrepreneurs and startups. For more information on accessing the City of Toronto, please visit the City's [Doing Business](#) website.

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## 4 Choosing a Business Structure

In the post [expanding your service based business into Canada](#), Telsec discussed some considerations you should examine before you begin to move a service-based business into Canada. In this post, we explained the different types of legal entities that can be used to do business “with Canada” and “in Canada.” There are numerous legal structures open to your business so taking the time to choose the best one for your needs is an important part of the process for a successful expansion. One of the best references for information about doing business in or with Canada is found on the [Canada Trade Commission site](#). You’ll find information on everything from visas and immigration to investing in Canada.

A U.S. or other foreign-based company has many options to choose from when selecting a business structure in which to carry on business in Canada. The entities available to do business include:

- Corporations
- Partnerships
- Joint Ventures
- Agencies
- Distributorships
- Franchises
- Licensing Agreements

The type of business structure you choose to establish will depend upon a number of considerations including:

- Having a Canadian resident participant in ownership or management
- Your current type of business
- Whether you are planning to set up physical operations in Canada
- Tax implications involved in the choice of your business

In the end, a major consideration in the type of business entity you choose will depend upon whether you want to do business “with Canada” or whether you want to do business “in Canada.” The one thing that is constant about almost all business types is the need for an address and a Canadian resident who can be served documents. A Post Office Box is not an acceptable business address for this purpose. However, a Business Centre like Telsec Business Centres, which provides [mail forwarding services and an address](#), is acceptable as a business address. There are also services available for serving documents, or for fulfilling government requirements to run a business here in Canada.

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## 4.1 Doing business in Canada

A United States or foreign corporation wanting to do business in Canada will find that there are many ways to go about it. Either it can open a branch office or subsidiary corporation, but it may also choose to use a partnership, limited partnership or joint venture to do business in Canada. The choices for business structures for a business or incorporated company will depend on tax implications, the cost of launching the new enterprise, and protecting trademarks and other intellectual properties.

## 4.2 Partnerships and joint ventures

Smaller U.S. or foreign businesses may find that one way to mitigate lack of knowledge of the market and other needs for doing business in Canada is to identify a Canadian business and form a partnership, limited partnership or joint venture. This allows them to leverage their Canadian partners' knowledge and market contacts, infrastructure and workforce, to sell their product/service or fill needs that can't be met by the U.S. market. An example of that would be a digital product that would benefit from a local presence in its marketing, while possibly increasing its pool of skilled labour.

A U.S. or foreign business may find one of these legal structures useful when wanting to do business in Canada with another Canadian business. One obvious benefit of being a Canadian business is that you will know the market better and will fulfill the Canadian resident requirements for corporations and other legal entities. The foreign business could enter into these agreements using almost any structure it wishes – but would still need to meet and address the Canadian resident requirements these public and private legal business structures require.

## 4.3 Corporation: Branch office versus subsidiary

Larger U.S. and foreign companies wanting to carry on business directly in Canada must first decide if they wish to do so as a branch of its parent corporation, or a subsidiary corporation. Either may require registration in multiple provinces as a limited or unlimited liability corporation (in order to protect or enforce trademarks). Please note that if you are based or registered in Quebec, you will also be required to have a French name. One factor that U.S. and foreign entities should understand is that much of what you read on this subject will suggest that any province you do business in requires registration.

<http://sbinfoCanada.about.com/od/startup/f/Non-Canadians-How-to-Open-a-Business-in-Canada.htm>

Info on investing in Canada (grants and incentives)

<http://www.international.gc.ca/investors-investisseurs/index.aspx?lang=eng> Canadian Intellectual Property Office

(<http://www.ic.gc.ca/eic/site/cipointernet-internetopic.nsf/eng/home>)

· [Apply for a Trademark](#)

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- [Apply for a Patent](#)
- [Register a Copyright](#)
- [Search Trademarks](#)
- [Search Patents](#)
- [Apply for an Industrial Design](#)

There are a number of factors that determine which is the best choice for U.S. and foreign businesses, but they are mainly determined by whether the business is private or public, the tax implications of each, and the degree of liability the parent entity has if things turn out badly. Basically, registering as a branch means the parent company is fully liable for all losses, whereas with a subsidiary, it is only liable for the amount of the investment in the corporation. The tax rate may also vary between the two. However, in both cases management fees can accrue to the parent company as an expense to either a branch or subsidiary organization.

## **Branch office Resources:**

Info on advantage disadvantages of branch office

## **Search business permits/licences**

To search permits and licenses, use Bizpal — an online tool jointly managed by the federal, provincial, territorial and municipal governments.

[Search for permits and licences](#)

## **4.4 Doing business with Canada**

If your company only wishes to do business “with” Canada, then you may choose to operate through an agency, distributorship, franchise or licensing agreement. Before doing so, we highly recommend that you seek legal and tax advice from a professional before moving forward. United States and foreign businesses that have trademarks and other similar assets looking to just do business with Canada, need to consider that other business structures – though more costly and more cumbersome to arrange – may provide a higher degree of protection and ability to use such things as trademarks in all of Canada’s provinces and territories. The advantage of these structures is that they do not really require residency or individuals to serve documents because they are contractual in nature with no presence in Canada.

## **4.5 Non Resident Importer**

A non-resident importer is a foreign (including USA) based company, which does not have a permanent presence in Canada, but imports into Canada under their own name and business number. One fact that may not be widely known is that if you are a non-resident providing goods and services into Canada you are subject to GST/HST taxes on your sales into Canada. No GST/HST management may cause issues at border crossings. One solution to this is to become a non-resident importer.

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US companies choosing to do business in Canada as a non-resident importer could see the following benefits to registering with the Canadian Border Services Agency as the Importer of Record:

1. Sell within Canada using a domestic pricing plan (goods and services)
2. Manage landed costs without involvement of a Canadian intermediary (goods)
3. To make border issues seamless (goods)
4. Increase your company's market share in Canada (goods and services)

The following are some challenges that a U.S.-based company should consider before choosing this business format:

1. Must first obtain a Business Number
2. Must have their books and records maintained in Canada
3. Must consider whether to register for a Goods and Services Tax (GST) number from the Government of Canada\*
4. Must consider registering for Provincial Sales Tax (PST) or Harmonized Sales Tax (HST) where applicable
5. Must review transfer-pricing policies7. Must understand input tax credit and flow through of pricing

\*Note that a non-resident person is not necessarily considered to be carrying on business in Canada for income tax purposes simply because that person is considered to be carrying on business in Canada for GST/HST purposes.

More GST/HST info: <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/gst-tps/frmspbs/menu-eng.html>